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RESTRUCTURING OF THE FEDERAL GOVERNMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON
THE CIVIL SERVICE

AND THE

SUBCOMMITTEE ON
COMPENSATION AND EMPLOYEE BENEFITS

OF THE

COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

FEBRUARY 1, 1994

Serial No. 103–31

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FEBRUARY 1, 1994

RESTRUCTURING OF THE FEDERAL GOVERNMENT

TUESDAY, FEBRUARY 1, 1994

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON CIVIL SERVICE, JOINT WITH SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS, COMMITTEE ON POST OFFICE AND CIVIL SERVICE,

Washington, DC.

The subcommittee met, pursuant to call, at 10 a.m., in room 311, Cannon House Office Building, the Honorable Eleanor Holmes Norton and Frank McCloskey, Co-Chairpersons presiding.

Members present: Representatives Norton, McCloskey, Ackerman, Burton, Byrne, Morella, Kanjorski, Schroeder, and Young.

Mr. MCCLOSKEY. Good morning. This hearing is generating a lot of interest, and I might say a word or two about scheduling.

This will be a semi-marathon session, and we are particularly honored to have three major cabinet secretaries to lead off on this important issue. We are going to hold to the schedule as far as morning and afternoon meetings, but with all of the interest and different members expressing an interest to come by somewhat spontaneously, I think we will go through the lunch hour, but keep to the afternoon schedule as much as possible for the afternoon witnesses to start at two o'clock.

So with that said, this hearing of the Civil Service and Compensation and Employee Benefits Committees is underway. The Washington Post had two major stories in the last week, and that, among other things, is generating turnout for this most important topic.

Reductions in force or RIFs, as we all know, are time consuming, demoralizing to the work force, and provide little benefit to agency or the employees. They hamper productivity and wreak havoc on the diversity of the work place.

The simple fact is that we cannot reduce the work force by 250,000 employees without providing federal agencies the flexibility to make their work force reductions in an intelligence and humane way. There are some six proposals pending in Congress that mandate the reduction of work force by 252,000, two of which have been passed by Congress.

The purpose of this hearing is to analyze the implications on the federal work force of eliminating these quarter million-plus positions without utilizing buyouts or VSIPs. Congress must act on the urgent buyout legislation. I expect that to be the main theme from our three secretaries this morning.

Absolutely no one in the Congress or the federal government wants RIFs or layoffs to occur. From the first day the subcommittees began reviewing legislation to provide a voluntary separation incentive payment, VSIP, the focus was to mitigate RIFs.

Last week CBO released a report that examined the costs and savings associated with the several ways to cut the federal work force: attrition, RIFs, and early retirement incentives. They found that the magnitude of the savings varies among the approaches in the short term. I think that they all know that, but there are substantial savings within five years. In the long term, all three approaches produce the same amount of savings, which amount to nearly $1 million per eliminated job over 30 years.

CBO notes frequently in its analysis, because each method produces equal long-term savings, costs clearly should not be the dominant concern. Arbitrary cuts and RIFs may cause backlogs, delays, reduction in productivity that ultimately make them a most costly way to reduce the size of the work force.

The GAO also has spent the past year analyzing the RIFs at the DOD, and not surprisingly found that the RIFs disproportionately affected women, minorities, and disabled employees at three DOD installations that they studied. In fact, DOD personnel statistics indicate that women, minorities, and disabled employees will continue to be adversely affected in future RIFs, according to the GAO. Certainly this is not the direction that the federal government should be taking.

My staff has found out that in discussions with employees at naval shipyards around the country undergoing major restructuring and in some cases RIFs, foremost in the employees' minds was whether their positions were going to be eliminated in a downsizing or base closure. The employees did not feel comfortable coming forward with health and safety concerns because they feared their complaints would provide an excuse for them to be let go or to shut their installation down. They believed every step they took, positive or negative, would affect their position at the installation.

Whether this fear is real or not or perceived is not the issue. The point is that this kind of atmosphere does not lend itself to a healthy and productive work site.

As we try to make the government work better with less, an insecure and unstable work force cannot achieve its objectives. How will social security claims be processed timely and efficiently or income taxes be administered correctly if we have a work force operating in fear?

I might note that in all of the hearings last year little or nothing was said from the administration as to what was the optimum size of any work force or function in order to get the work done. We seem to be driven by these numbers at this point.

It seems that almost every member of Congress, both Majority and Minority, have made statements calling for reinventing government and eliminating mid-level bureaucrats, that is, their positions, and thereby saving taxpayers billions of dollars. Without this buyout legislation, reinventing government will be a free-for-all, and in all likelihood, productivity will be hurt, and agencies will not be able to reduce their numbers of mid-level managers.

The government, many say, and to some degree I agree, must act more like a private business. Many major private sector companies have offered retirement and separation incentives to reduce their work force. The GAO reports that private sector employers have attempted to minimize involuntary separations and focus on the morale end of the work force as they down-size.

The least the federal government could do for federal employees would be to follow the example of the private sector. Buyouts have worked for the private sector. Buyouts have worked for the DOD, the CIA, and a few other federal agencies.

We should learn from these examples and apply that experience to the rest of the federal government.

Again, I want to welcome all of our distinguished witnesses to today's hearing. I might say, given the importance of having cabinet secretaries, I am honored that they are here, and they are going to have as much time as they want, but as to other witnesses throughout the day, if they would summarize and really focus and help us keep the hearing moving fairly quickly, I would be most appreciative.

The President and Vice President and each one of you and each one of us on this committee must make this issue a priority and do everything possible to see this legislation enacted. This committee alone, quite seriously, cannot pass the legislation.

As I was saying to our secretaries, the entire leadership of the present administration really needs to go high profile and get the priority of this across the Congress expeditiously. The time is now. We must have the support of the administration every step of the way.

I thank you.

Chair Norton.

Ms. NORTON. Thank you very much, Chairman McCloskey.

With Congress barely in session, this hearing is the first for the Subcommittee on Compensation and Employee Benefits, and we are pleased to hold it jointly with the Civil Service Subcommittee, chaired by my good and able friend Frank McCloskey.

We come not a minute too soon. We must hurry to insure that we already are not too late. Our subcommittee and the full Post Office and Civil Service Committee, as well as our counterpart committees in the Senate, were quick to press and pass H.R. 3345, the Federal Work Force Restructuring Act of 1993.

If the bill had not stalled on the House and Senate floors, most agencies would now be well on their way to achieving an historic and unprecedented permanent downsizing of the federal bureaucracy. Quick action was directed by President Clinton's Executive Order 12834, with 25 percent of total reductions to be achieved by the end of Fiscal Year 1993, 62.5 percent by the end of Fiscal Year 1994, and 100 percent by the end of Fiscal Year 1995.

By now, federal personnel reductions should already have contributed the first 25 percent to President Clinton's equally ambitious deficit reduction savings, set to total $8 billion from this effort by 1997.

By allowing our downsizing bill to drift from one calendar year to the next, the Congress has been negligent in meeting its own tight goal for deficit reduction. The principal reason for the delay

appears to be a bad case of shortsighted, penny wise and pound foolishness.

The 1990 pay-as-you-go deficit reduction rules require us to find savings when we create costs that add to the deficit. Of course, those rules never contemplated the permanent reductions in the federal work force we are now trying to achieve.

Personnel separations always incur costs. However, the least cost-efficient are layoffs or, as government jargon would have it, reductions-in-force or RIFs. RIFs require substantial up-front severance pay and other costs, and the irrational layoff process leaves government with new costs.

For example, because of seniority rules, government layoffs do not eliminate high wage employees where the savings are greatest. Instead, these highly paid workers actually bump down to lower positions, but are paid at the same high salaries while working below their skill and experience levels.

Meanwhile front line employees who help families refinance mortgages or help seniors find missing social security checks lose their jobs. This is exactly the opposite of the results sought by Vice President Gore's much praised National Performance Review.

The ground-breaking study found that the federal government ratio of managers to employees was twice that of the private sector and, therefore, particularly targeted managers for voluntary incentive payments that would encourage them to leave their jobs.

President Clinton's executive order directed that 10 percent of the reductions come from the very highest paid employees in the Senior Executive Service and in Grades 14 and 15. Layoffs leave in place precisely these managers with their full pay untouched.

Initially, the administration proposed that 100,000 positions be permanently reduced by attrition. Buyouts were not proposed until the administration added 150,000-plus positions to accomplish the restructuring proposed by the Vice President's review. By then it was clear that little attrition was occurring because of the combination of a slow economy and employee expectations that voluntary buyouts were coming, as were done with the other agencies.

We now have recent documented evidence that voluntary separation incentive payments, or VSIPs, work and work very well. The Department of Defense, the Postal Service, the Central Intelligence Agency, the General Accounting Office, the Government Printing Office, and the Library of Congress have demonstrated that VSIPs not only effect large savings, but achieve restructuring that accounts for far greater efficiency.

Moreover, the usual discriminatory effect of layoffs on minorities, women and disabled employees is completely eliminated by voluntary buyouts. I do not intend to help preside over a process that does less to downsize the bureaucracy than to eliminate minorities, women, and disabled workers already underrepresented in the federal government when compared with their availability according to skill levels.

Our delay in figuring out the obvious has brought us dangerously close to layoffs whose effects would be so perverse they would look more like an accident than like downsizing. We can and must do the right thing, and we must do it before March 15th, the last date

when it is possible to achieve personnel reduction savings through buyouts for Fiscal Year 1994.

Layoffs were never, and cannot now, be contemplated to permanently downsize the federal government. The administration's voluntary incentive buyouts are the only feasible way to accomplish this goal.

H.R. 3345 would allow up to $25,000 to buy out employees, but the full $25,000 would not be necessary for many because amounts vary with existing salary levels and years in service.

The Congressional Budget Office has concluded that VSIPs would save far more in the long run than they would cost in the short run.

The Omnibus Budget Reconciliation Act passed by Congress last year built in downsizing and spending cuts for agencies that are already in place. Thus, Congress must either move quickly to approve buyouts or face precipitous, destructive, and wildly cost inefficient layoffs, not to mention totally unacceptable human costs.

I have no reason to believe that Congress has so lost its mind and its intelligence that it would allow such a counterproductive result. Our job is to start the ball rolling again this morning that got stuck in the mud last session.

Today's hearing will help clarify our real options and, as I hope and must assume, will point us in the direction of the only intelligent option before us: the quick enactment of the Federal Work Force Restructuring Act of 1993.

I welcome my friends, the cabinet secretaries, who are today's first witnesses.

Thank you.

Mr. McCLOSKEY. Thank you for an excellent statement, Ms. Norton.

Mrs. Morella, good to see you.

Mrs. MORELLA. Thank you, Chairman McCloskey and Chairwoman Norton. I appreciate the opportunity to just express a few thoughts and to welcome our witnesses.

The importance of the buyout issues is underscored by the positions of the witnesses before us. I don't recall in my four terms in Congress ever having a committee meeting, let alone a subcommittee meeting or meetings, with three department secretaries, at least four deputy secretaries, directors, administrators, deputy under secretaries, associate administrators, and assistant directors.

I will almost wager you will, for the most part, be preaching to the choir when you emphasize to these subcommittees the need for enactment of the buyout provisions.

When Chairman Clay introduced H.R. 3345 in October of 1993, all 17 of the original co-sponsors came from the committee. I am one of these original co-sponsors, and the bill, as you know, passed the committee and was incorporated into H.R. 3400 as part of the Government Reform and Savings Act of 1993.

Unfortunately, the buyout portion of the bill did not receive full House support. The strong message must be communicated that voluntary separation incentive payments early in the fiscal year will prove to be more cost effective in the long run.

Furthermore, a voluntary program is much friendly than an involuntary situation in which the morale and productivity of the employees are adversely affected.

I have heard from many constituents who favor the buyout program. A few have said that buyouts are unnecessary and expensive. However, it is apparent that those who are against these VSIP are not aware of the effect and the cost of reductions-in-force or the savings which are expected to result from voluntary separation.

The alternative to agency targeted buyouts will be a reduction in force mechanism, and not only will severance pay be costly, but there will be a major human cost in the loss of lower income workers, those who can least afford to lose their jobs, those employees, mostly women and minorities, who were the last hired.

The cost of loss of morale and of undoing the equal employment opportunity hiring of recent years are incalculable.

I hope that the media will give this issue the importance that it deserves not only inside the beltway, but all over the country, where there are thousands of federal employees and their families who will be affected by this congressional decision.

I do look forward to the hearing also in terms of eliciting clarification and the concept of the reality of the acceptance of the buyouts and also how the buyout provisions are working among those departments that have already been able to utilize it.

I think the public would then advocate strongly that we must do what we did before. We did it before; we can do it again; and that is pass this buyout provision.

Thank you, Mr. Chairman.

Mr. McCLOSKEY. Thank you, Mrs. Morella.

It is good to welcome Mrs. Schroeder.

Mrs. SCHROEDER. Thank you, Mr. Chairman, and with our three distinguished panelists out there, I think I am going to yield and move on to hear what they say. I am very honored to have my ex-mayor who we are so proud of as the Secretary, and of course, Mr. Babbitt, who is one of our great Western heroes, and of course, Mike Espy, a fellow colleague.

So I am very anxious to hear what they say. Thank you.

Mr. McCLOSKEY. Thank you so much.

Mr. Young, good to see you.

Mr. YOUNG. Thank you.

Mr. Secretary, a hero you may not be, but you are one of my dear friends anyway. [Laughter.]

Secretary BABBITT. I hope they print that.

Mr. YOUNG. I am sure they will, and, Mike, I hope your phones are working a little better this week than they were last week.

Secretary ESPY. Yes.

Mr. YOUNG. All right. I appreciate it.

Mr. Chairman, I am sort of interested in this hearing. One, we did pass this bill out, and our good delegate mentioned very truthfully that the Congress is at fault here. I do look forward to your support of this legislation. This is sort of a cheering time. I think it is long overdue, and I hope we go forth on the Congress side with your support and pass this legislation. I think it is badly needed, and I do welcome the witnesses.

Thank you, Mr. Chairman.

Mr. McCLOSKEY. Thank you very much, Mr. Young.

Mr. Ackerman.

Mr. ACKERMAN. I just want to thank the distinguished chairs for calling this meeting in a timely fashion and welcome our cabinet secretaries, and a special greeting to our former colleague, Secretary Espy, and as far as I am concerned, we can get on with it.

Mr. McCLOSKEY. Thank you, Gary.

Mr. Kanjorski.

Mr. KANJORSKI. Mr. Chairman, I just ask unanimous consent to insert in the record at this point a statement.

Mr. McCLOSKEY. Without objection, so ordered.

Ms. Byrne, how are you?

Mrs. BYRNE. Thank you, Mr. Chairman, and I ask unanimous consent to insert a statement in the record also.

Mr. McCLOSKEY. Without objection, so ordered.

Mr. Wynn.

Mr. WYNN. Thank you, Mr. Chairman.

Representing, I think, more federal employees than any other member of Congress, I certainly have an interest in today's hearing. I want to thank you and Chairman Norton for convening this session and welcome the cabinet secretaries, and thank you very much.

Mr. McCLOSKEY. Thank you so much.

We shall proceed with the panel of our three most distinguished witnesses. I am not going to sort out primacy here. So the ball is your court as to how you want to start.

STATEMENT OF HON. FEDERICO PEÑA, SECRETARY, DEPARTMENT OF TRANSPORTATION

Secretary PEÑA. Let me first thank our two chairpeople for conducting this hearing, and to all of the members of the committee for giving us an opportunity to be here with fellow cabinet members to discuss H.R. 3345.

It might be helpful to remind ourselves, Mr. Chairman and members of the committee, that as members of the administration and as cabinet secretaries, we are generally perceived as people who are implementing policy, implementing legislation, shaping a new direction for the country.

Oftentimes what is forgotten is that we are managers. Each of us has been entrusted by the President and by the American people to manage very large organizations. The Department of Transportation is a company, in a sense, of 105,000 people. That is a very large organization to manage.

One of our priorities and challenges is to find a way to make this company, to make this department more responsive to the American people; to change the way in which it has conducted business in the past; to be more sensitive to customers and to those industries and others that we interact with daily, yearly, and on a frequent basis.

So I am very pleased to be here today to strongly support the quick passage of this legislation. Let me tell you why, Mr. Chairman.

First of all, we have a need to reduce and flatten the bureaucracy. My goal in the Department of Transportation is to find opportunities where we can reduce by about 12 percent by 1991. Let me put that in human terms. In human terms that means that I must find a way to eliminate 8,450 positions.

Before 1995, we must eliminate 2,400 positions. I want to do this in a humane way. I want to do this in a smart way, and I believe that one of the tools that we absolutely need to have is this legislation in order to get the job done.

The process we have undertaken is threefold. Number one, we have established for the department a seven-point strategic agenda which identifies how we want to move transportation in this country.

Number two, I have asked each of my modal or operating administrators to find ways to streamline, to consolidate, to eliminate functions or programs that are no longer important today.

And, number three, I have created 16 teams within the department which have developed 350 recommendations of how we can make the Department of Transportation work better.

So we are doing all of that, but in spite of that, we need to do more. We are excited in the department. We are challenged by the reinventing government process, and we are looking forward to moving this agenda very quickly.

Foremost in my mind, and I know that my fellow cabinet members will reflect on this also, are people. The people in the Department of Transportation are outstanding individuals. They are talented. They have incredible expertise, and as we go through this process, they are very sensitive to the statements that are being made about down-sizing government.

They are prepared to work with us in walking through this process so long as we do it correctly. We have an opportunity to do this in the proper fashion and also the possibility of doing it incorrectly, and I hope we do not do that.

We need a full set of tools to get this job done. We have asked OPM, for example, for early retirement authority. That will not be enough. We need this buyout authority also.

Mr. Chairman, I think you said and some of the members of the committee made this comment earlier, that the private sector has already done this, and I strongly believe that we in government have to be more entrepreneurial. We have to be more nimble. We have to have the ability to move quickly as we have, for example, in Los Angeles with the earthquake, as we did in the Midwest floods. We have got to be able to continue to have that ability to respond quickly to crises, and yet be able to do that on a daily basis.

In addition to the private sector having embarked on these kinds of programs, I think Congressman Schroeder will recall when I was Mayor of Denver, we did this in our city. I had the difficult task of asking city employees to take five days of leave without pay. That is a very difficult decision to make, and in addition to that, we implanted a policy that allowed people to retire early, and it worked.

So I can say that if we can do this at the local level, and I think a number of us have said a number of times that creative ideas are

out there in the country in cities, in States, in the private sector. We can certainly do it here in Washington, and you will hear testimony today about DOD and others who have done this thus far.

So I know it can work from personal experience.

Let me give you an example of why we need to do this. Our Federal Highway Administration has responsibility for implementing the Intermodal Surface Transportation Efficiency Act of 1991, known as ISTEA. It is a monumental effort. It will change the way in which the Federal Highway Administration has acted in the past and thinks differently about intermodalism in the future.

To do that, my Administrator has told me that he needs the flexibility to reorganize that agency in order to deliver on ISTEA, and he needs this tool to help him get the job done.

The Federal Rail Administration, is very concerned about safety. You have all heard about terrible accidents we had in our country at intersections. We need to do a different kind of work and bring new skills in FRA to be out there to deal with safety from a new technical perspective.

To do that, they need the flexibility to bring in new skills and to retrain some people, and also to make adjustments for people who are already in that agency.

And the same is true with FAA, Federal Aviation Administration, which is responsible for maintaining safety on our aviation systems. They want to protect the safety sensitive positions, but to do that, they must then find their reductions in other parts of FAA, and we need this tool to get that job done.

Mr. Chairman and members of the committee, if we do not have this very important managerial tool, the options are not pleasant. They are RIFs, as Congressman Norton talked about, which we believe are more expensive, are destructive to the organization, affect morale, and in effect, end up with high paid individuals moved in to lower positions but receiving the same pay and not reaching the objective of improving efficiency and flattening the organization, which is what we want to do.

We will have to freeze positions. That also in not particularly helpful because by freezing a position we, in many cases, leave a very important function empty for an indefinite period of time, and that does not bring us the kind of quality improvement wanted in the department, and we would have to eliminate many of our temporary employees.

We have about 2,000 temporary employees in the Department of Transportation. These temporary employees are important because they are very cost beneficial. They do have large numbers of women and minorities, and, thirdly, they are the breeding ground for the new talent, the new professionals, the new planners, the new engineers, the new designers that we very much want to be in the Department of Transportation.

If we have to eliminate those temporary employees, we lose that very important asset.

And, thirdly——

Mr. McCloskey. Mr. Secretary, if you would suspend for just a moment, please, we are having some difficulty with the sound equipment. If everyone, until it is repaired hopefully in a matter

of minutes, will speak a little bit more forcefully and clearly into the microphone, it will be very helpful.

Secretary PEÑA. Thank you, Mr. Chairman.

Mr. MCCLOSKEY. Thank you, Mr. Secretary.

Secretary PEÑA. I will do that.

And, thirdly, we would have to continue to have reductions in force. Again, reductions in force we think are not strategic. They are not good for morale and do not get us the objective that we want.

So, Mr. Chairman and members of the committee, let me conclude my testimony by simply saying that I believe this department and this government needs to be entrepreneurial. We have to be flexible. We have to be nimble. We have to flatten the bureaucracy, and most importantly, we need the tools necessary in order to get the job done.

I think that is what the American people expect us to do. They want our service to be more customer friendly. They want us to be more efficient, and I believe that by having this tool, we will be able to get that job done.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Peña follows:]

PREPARED STATEMENT OF FEDERICO PEÑA, SECRETARY, DEPARTMENT OF TRANSPORTATION

Chairpersons McCloskey and Norton, and members of the Subcommittees—Thank you for the opportunity to testify this morning on the Department of Transportation's (DOT) support for the Voluntary Separation Incentive Proposal as a cost-effective way to streamline the Department and make it a more effective organization.

At DOT, we have taken the President's challenge to reinvent Government very seriously including initiatives to reduce "red tape", and the bureaucracy associated with large administrative systems, to streamline our management and supervisory structure, to move employees from overhead functions into front-line service activities and to reduce the DOT civilian work force by 12 percent by Fiscal Year 1999. When I began this streamlining effort, the Department had a civilian work force of 70,419. By Fiscal Year 1999, DOT's civilian work force will be reduced by 8,450 to 61,969.

Over the past several months, DOT has been engaged in a three-pronged effort to improve how we serve our customers, the American public.

One, we have just completed a department-wide strategic planning effort. We have articulated our goals and in doing so have identified the most essential work facing us. I believe we have developed a strategic plan which will allow us to better focus our energies and target our resources.

Two, I have asked the modal administrators to review their organizations to identify areas where we can make significant positive change by eliminating non-essential work, streamling activities, and consolidating programs. For example, each of the modal administrators has identified layers of the bureaucracy which can be eliminated. Maritime and the National Highway Traffic Safety Administration (NHTSA) have proposed elimination of most of their deputy positions. The Federal Transit Administration (FTA) and Federal Highway Administration (FHWA) are both reviewing their field staffs to ensure that they can provide better service and be better partners with State and local governments. The DOT Fiscal Year 1995 budget will propose the consolidation of several staff functions. Throughout the Department we are developing improved systems to streamline acquisition, accounting and personnel functions so that we can reduce the number of people working in these areas. The budget also increased our research and technology efforts to help us both meet our future transportation goals and better manage the Department.

Three, I also assembled 16 employee teams to take a bottom-up look at what we do and ways we could do it better. These DOT Performance Review teams have identified over 350 recommendations which are being reviewed and implemented as appropriate. FTA, for example, has redesigned its grant process to more quickly get funding to its grant recipients and has filed notice in the Federal Register to elimi-

nate several unnecessary requirements on its grantees. Both of these actions were part of the employee recommendations.

We are excited and challenged by our result to date. We are now ready to begin the harder implementation phase.

Foremost in our minds as we undertake streamlining is that the greatest resource the Department has is its work force. A dedicated and extremely competent group of men and women working hard everyday to ensure that the United States has a safe, technologically advanced and efficient transportation system that promotes economic growth and international competitiveness now and in the future, and contributes to a healthy and secure environment for us and our children.

I believe DOT will be a stronger, more efficient Department after we complete streamlining, but I cannot overstate the negative impact that the streamlining and reductions in our work force can have if it is not done well.

Without a full set of tools, including buy-out authority, as well as early-out authority, re-training and aggressive placement assistance, we will not be able to manage this "rightsizing," as the process is commonly known, in a productive and efficient way. These are tools employed by American's top private companies. If we are going to manage our effort to restructure the Department so it works better, reduces middle and senior management and excessive oversight functions while preserving vital front-line workers, then we need all the tools available to corporate America, including buy-out authority.

I know it can work. When I was Mayor of Denver, we had a similar plan. While the structure of the plan was somewhat different (we permitted the rule of 75, a combination of age and service) the result was quite similar to what we would like here, 825 were eligible to participate. We had needed at least 30 percent of those eligible to participate to get the savings we needed. We actually had 553 or 62 percent take advantage of the program which provided increased savings and gave us some management flexibility to restructure the city's work force.

In keeping with the spirit of NPR, I have laid out general parameters and asked each of our operating administrations to undertake a serious streamlining and reinvention planning effort which is fine-tuned to their unique work force issues and goals. Each administrator in turn has developed a plan that supports and recognizes the unique issues that face them, and that allows us to meet our 12 percent reduction goal while putting us in a better position to serve the American taxpayer. For example,

FHWA needs buy-out authority, in order to have sufficient flexibility to restructure FHWA to meet NPR goals and its changing mission and employee skill requirements as a result of the Intermodal Surface Transportation Improvement Act of 1991 (ISTEA).

FRA is re-engineering its safety program from one of watchers to one of problem solvers. In order to achieve this new approach, FRA must expand its capacity by providing training assistance, creative problem solving, better rulemaking and increased support of technological developement. This will require a change in employees' skill sets. This will be done by both re-training the existing staff and hiring additional people with some of the skills and technology experience now unavailable to FRA. Buy-outs will provide flexibility to bring these new employees abroad without adversely impacting the rest of the FRA work force.

The Federal Aviation Administration (FAA) plan protects its front-line safety sensitive positions including air traffic controllers and safety inspectors. By protecting 30,000 front-line safety positions, we will be increasing the overall need for reductions on the remaining work force to over 20 percent.

We continue to be dependent on the need for buy-out authority to help accomplish our reductions, provide flexibility to restructure our work force, and minimize the negative impact that would occur through reductions-in-force (RIFs). Without buy-out authority, several of the operating administrations including FAA, the U.S. Coast Guard (USCG) and the Office of Inspector General (OIG) will require RIFs to either fit within their budget levels for Fiscal Year 1995 or to make their share of the necessary cuts in full-time equivalent (FTE) and senior-level reductions for Fiscal Year 1995.

We seek your support for early approval of this authority. We have sought early out authority from OPM but that alone will not allow us to meet our FTE goals let alone provide sufficient flexibility for our restructuring initiatives. We are developing an out-placement and expanded retraining effort in order to assist employees. The average DOT attrition rates have fallen off to below 2.8 percent for senior-level reductions for Fiscal Year 1994, in part because of the slow labor market in this area and in part because of employees' decisions to wait and see if their authority will be granted. USCG, for example, estimates that attrition alone will only reduce 5 of the 55 senior-level positions targeted for reduction. As we are all aware, many

employees not eligible for early retirement are waiting, cutting normal attrition and putting us further and further behind our goal.

Without buy-out authority, the Department anticipates that through the remainder of Fiscal Year 1994 and Fiscal Year 1995 we will have to:

Freeze hiring in functions other than those most critical such as safety sensitive or research and development for at least two full fiscal years—a situation that presents significant management problems, since attrition traditionally occurs at a greater rate in the lower grade levels and not in the senior levels targeted by this streamlining effort. In fact, DOT's experience for Fiscal Year 1994 is 7.1 percent in the clerical grade levels with a drop to 1.8 percent in grades above GS–13 (including SES).

Maintain current levels of FTEs dedicated to critical safety functions by allowing hiring in those positions—and potentially increase the resources assigned to critical functions such as aviation safety inspection which would require that we target even more reductions in other areas.

Release one-quarter of our temporary employees. This is a population that represents more diversity than the permanent work force, tends to be lower grades, and represents a significant investment in our future work force. Over one half of DOT temporaries are in stay-in-school, co-op, or junior fellow programs—this will result in a reduction of 500 FTEs and a significant loss of our work force diversity.

Run RIFs to eliminate any remaining FTEs in Fiscal Year 1995. FAA estimates that as many as 800 employees could be affected by RIFs and the RIF level in the rest of the Department will be several hundred FTEs.

In addition, in order to meet the targets for reducing senior-level positions we need a reduction of over 700 encumbered or filled positions—or in human terms, 700 men and women by the end of 1995. States another way, we will eliminate approximately 8 percent of our senior-level positions within the next 18 months. Buy-out is absolutely essential to minimize the necessity of RIFs in those senior levels. With the extremely low attrition rate in these levels, we will not be able to achieve this reduction without either an incentive for eligible employees to retire or RIFs. With a few exceptions, all the modes will require RIFs to reduce their senior ranks unless incentives are available.

RIFs would allow us to reach the numerical goal of reducing the senior-level positions, but in reality it will be a disaster. Not only would the Department experience disruption to services and declining employee morale, but RIFs in those senior-level positions would actually result in continuing the higher salaries of the senior-level individuals whose positions have been eliminated, while separating more junior, level paid employees. The diversity gains that the Department has made in senior levels in the past four or five years would disappear and, because of seniority and veterans preference, women could drop so far down that they will be forced out. The result would simply be fewer employees at the senior levels and an even larger group of mid-level employees seeking advancement into the reduced senior levels, all without any significant dollar savings. In fact, the net effect will be a cost to DOT. particularly once you factor in the loss of the morale and employee productivity which while never calculated are very real.

Based on our informal surveys, an additional advantage of buy-outs will be to give us the flexibility to better manage the organizational restructuring and reductions planned for the out-years. Without this authority we will:

Be forced to continue hiring freezes for four more years. This would totally cripple our ability to manage change effectively. We would be left to react to individual employees decisions to leave and make incremental change whenever possible.

Run RIFs in both Fiscal Years 1998 and 1999 to meet the target FTE levels if current attrition rates hold and we are unable to achieve significant reductions between now and then.

Freeze all promotions above the GS–12 level until the number of senior-level employees falls below the proposed reduction.

This scenario is for the Department as a whole. When organizations such as FAA examine the impact of streamlining on their work force, the result is even more striking. As a consequence of protecting its safety sensitive positions, FAA anticipates that significant reductions will have to be made in several of the out-years.

Maintaining the Department in "RIF-readiness" for at least 3 of the next 5 years will have a tremendous negative impact on the remaining work force. The enormous disruption and loss of employee motivation and productivity could effectively prevent us from achieving our goals perpetuate "government as usual."

This completes my statement. I would be pleased to answer any of the subcommittees' questions.

Mr. McCloskey. Thank you, Mr. Peña. I am looking forward to the question and answer session for further elaboration.

Our next distinguished panelist is Secretary Espy.

STATEMENT OF HON. MIKE ESPY, SECRETARY, DEPARTMENT OF AGRICULTURE

Secretary Espy. Yes, Chairman McCloskey and Chairman Norton, and to the members of both subcommittees, I am delighted to be here once more in the Cannon Building, and I want to echo just about everything Secretary Pena said to you regarding the benefits of a VSIP system as opposed to the disastrous situation that would accrue if we would just have to rely on RIFs.

I would like to remind you that insofar as it relates to the USDA, we are going through an incredible change right now. We have a mark-up in the House Agriculture Subcommittee on February 8, and I am told today or tomorrow we will be learning of the specific date for a mark-up on the Senate side to fundamentally restructure the Department of Agriculture, to restructure along the lines of missions, instead of separate avenues. If we have our way, we will not be having all of these agencies any longer. We have embarked on a substantial downsizing or right-sizing, if you will, and we have to do it.

President Abraham Lincoln created the Department of Agriculture in 1862, and since that time we have grown in size, not only in the size of our work force, but also in the size of our jurisdiction. We have increased in scope and area of responsibility. During the last 132 years, we have had little if any significant organizational down-sizing.

Out in the country we now have about 3,700 county-based offices, but we only have about 3,000 counties and parishes in the country. Around the world we have about 3,000 additional offices.

The size of our work force now is about 110,000 people with 15,000 on our headquarters staff and so we simply have to do this reorganization.

We have a plan on the table to reduce the size of our work force by about 7,500 people over the next five years. We would like to start in Washington first. We have a plan on the table to reduce the size of our D.C. operation, to cut it from 43 agencies to 30. I want to eliminate 13 agencies right away. There will be a reduction in the number of agency administrators and once we get to the rest of the plan, Plan 2, I would like to cut the number of local and area offices by 1,200 as soon as possible.

In headquarters, we plan to have a reduction of about 8 percent of the work force and in the country about 6.5 percent, and that is going to be tough to do, and I realize that, but I think, Mr. Chairman, it is very necessary to do it.

We would like to do it through the VSIP rather than RIF. We think that if we had VSIP, it is certainly a more cost effective means for streamlining, reorganizing and reducing the size of our work force. It certainly is more humane, and as Congresswoman Norton said, it is more consistent with our interest in maintaining diversity in the USDA, an agency which has been under some very valid criticism over the years with regard to our sensitivity, particularly in the Farmers Home area.

So currently under consideration in the House Agriculture Committee is a proposal to restructure the USDA. Again, it is going to be marked up on February 8. If enacted, the proposal would provide a new, modern focus to the Department and result in substantial efficiencies and savings to the taxpayer. We hope to save about $2.5 billion in personnel and administrative costs over the next five years, and it certainly will position us to provide better service.

We want to consolidate. We want to provide a one-stop shop that is really more than a cliche, where the farmer can come into one service center and receive production information, crop insurance information, and information on loans and grants.

In June 1993, a USDA right-sizing plan was developed to serve as an integral part of our plan to restructure the Department and to achieve our streamlining goals. That plan includes the use of incentive payments as an essential tool for stimulating voluntary separation. Without this tool, the possibility of substantial RIFs are greatly increased.

As we take aggressive action over the next two years to streamline our programs and our functions, attrition will not occur where needed to avoid involuntary separations. This will be especially true for administrative functions, positions in Washington and particularly in the higher grades.

Without a buyout program to increase the rate of attrition in these desired areas, we anticipate that employees will be separated involuntarily through reductions in force, and, as you know, this is something we would not like to see. We would have serious program disruptions that will certainly occur under this scenario.

Similarly, as we move to consolidate our field offices, RIFs could occur in some locations without this buyout authority. Incentive payments as provided in the bill would permit use of this authority in selected occupations, geographic locations, or classes of managers and supervisors. This provision will enable us to stimulate attrition where we most need it to occur.

In Fiscal Year 1989, our attrition rate was 6.7 percent, decreasing to 5.2 percent for Fiscal Year 1993, and we anticipate it will continue to decrease unless action is taken to increase the rate of separation.

The rate has been decreasing due to a lower rate of retirements, and of course, decreased employment opportunities in other Federal agencies and certainly in the private sector. But also while we downsize, we anticipate that in some areas in order to achieve our program goals, we have to increase hiring within the USDA. I point specifically to the area of food inspection, especially meat and poultry inspection. We have to hire more food inspectors to safeguard the supplies of meat and poultry. I would like to manage this staff-restructuring process in a manner which minimizes RIFs, and the buyouts, of course, are the best and most effective tool for this particular purpose.

In addition to our streamlining plans, we have separate situations where reduced appropriations for Fiscal Year 1994 have limited our ability to provide employment for our existing work force. The Forest Service has declared that 1,400 or 3.4 percent of their work force now exists in a surplus situation. They have been and they are continuing aggressive action to capitalize on the attrition

occurring by moving surplus employees to vacant funded positions. However, they still anticipate the need to conduct a RIF to involuntarily separate 850 employees in Fiscal Year 1994.

Mr. Chairman, I asked our Forest Service professionals to give me an estimate of the cost of a RIF versus the cost of a VSIP to 850 employees. This is the desired level of involuntary separation, and I am told here that to RIF 850 employees would cost the federal government $72.3 million as opposed to a buyout of the same 850 employees that would cost $24.7 million, an incredible difference.

The RIF costs are more substantial because, of course, we have to pay severance pay and unemployment costs. We have to pay the salary for those who are bumped, and they keep their same level of salary, and the transfer of station costs, as opposed to a buyout, which will only be a $25,000 severance pay lump sum cash allowance and a 9 percent payment to the retirement fund.

So, again, the difference to RIF 850 employees in the Forest Service is $72.3 million, as opposed to buyout of $24.7 million, and that is an incredible difference.

If reduction in force is used, there will be a disproportionate loss to women, minorities, and our younger workers in general, and we have been striving over the last several years at the USDA to increase our representation of women and minorities in our work force.

Regrettably, if we have to resort to RIFs, we will lose some of these gains. In fact, California, Region 5 of the Forest Service, has been under a consent decree to increase the numbers of its women employees.

So at the USDA, we would like to have authorization for use of this buyout as early as possible this year if we are to be able to finance the payments and avoid salary and benefits expenses for Fiscal Year 1995 and beyond.

Again, just in summary, this is a cost avoidance tool which will help us to reduce the size of our work force and streamline our operations. The inherent costs associated with RIF of severance pay and relocation expenses from one duty station to another would be avoided. These expenses per employee could reach $80,000 or more.

Another major reason for the high cost, as I said, in the case of the Forest Service is this matter of seniority bumping that causes multiple moves in order to reduce the work force by even one employee. So a buyout program will save tax dollars, and it certainly is a responsible and more humane way to reduce the size of our federal work force.

It is a sound business decision. It is something that we believe needs to happen, and I surely would like this particular President that we serve to be able to say that under his leadership we had a significant down-sizing of the USDA organization, something that has not been done in 132 years.

Thank you.

[The prepared statement of Mr. Espy follows:]

PREPARED STATEMENT OF MIKE ESPY, SECRETARY, DEPARTMENT OF AGRICULTURE

Mr. Chairman, the Department of Agriculture appreciates this opportunity to report on the benefits of a voluntary separation incentive payment (VSIP) or buyout

authorization in order to provide USDA with a humane and cost effective means for streamlining, reorganizing, and reducing the size of our work force.

Currently under consideration of the House Agriculture Committee is my proposal to restructure and reform the Department of Agriculture. If enacted, that proposal will provide a new, modern focus to the Department and result in substantial efficiencies and savings to the taxpayer, as well as positioning us to provide better service. These changes are long overdue. Your passage of this bill will help me achieve these goals.

In June 1993, a USDA Rightsizing Plan was developed to serve as an integral part of my plan to restructure the Department and to achieve our streamlining goals. That plan included use of incentive payments as an essential tool in stimulating voluntary separation. Without this tool, the possibility of substantial reductions-in-force is greatly increased.

Moreover, many of our programs are undergoing budgetary cutbacks or shifts in mission. This will require a different work force.

As we take aggressive action over the next two years to streamline our programs and functions, attrition will not occur where it is needed to avoid involuntary separations. This will be especially true for administrative functions, positions in Washington, and in the higher grades. Without a buyout program to increase the rate of attrition in these desired areas, we anticipate that employees will be separated involuntarily through reduction-in-force. Serious program disruptions would occur under such a scenario.

Similarly, as USDA moves to consolidate its field offices, reductions-in-force could occur in some locations without buyout authorization. Incentive payments, as provided in the bill, would permit their use for selected occupations, geographical locations, or classes of managers and supervisors. This provision will enable us to stimulate attribution where we most need it to occur.

In Fiscal Year 1989, our attrition rate was 6.7 percent, decreasing to 5.2 percent for Fiscal Year 1993. We anticipate that it will be less than 5.0 percent this year unless action is taken to increase the rate of separations. The rate has been decreasing due to a lower rate of retirements, decreased employment opportunities in other federal agencies, and the private sector.

Some programs at USDA will increase in size, even as others are reduced. The hiring of additional Food Inspectors is planned to safeguard the supplies of meat and poultry. We would like to manage this process in a manner which minimizes RIF's. Buyouts are the best and most cost-effective tool for this purpose.

In addition to our streamlining and reorganization plans, we have several situations where reduced appropriations for Fiscal Year 1994 are limiting our ability to provide employment for our existing work force. The Forest Service has declared 2,700 or 7.7 percent of their work force to be in surplus positions. They have been, and are continuing aggressive action to capitalize on the attrition that is occurring by moving surplus employees to vacant funded positions. However, they still anticipate the need to conduct a RIF to involuntarily separate 450 employees in fiscal year 1994.

If reduction-in-force is used, there will be a disproportionate loss of women, minorities, and our younger workers in general. We have been striving over the last several years at USDA to increase our representation of women and minorities in the work force. If we have to resort to RIF, we will lose some of these gains. In fact, the California Region (Region 5) of the Forest Service has been under a Consent Decree to increase the numbers of its women employees.

At USDA, we would like to have authorization for use of buy out incentives as early as possible this year if we are to be able to finance the payments and avoid salary and benefits expenses for Fiscal Year 1995 and beyond.

A buyout program would be a cost avoidance tool to help us reduce the size of our work force and streamline our operations. The inherent costs associated with RIF of severance pay and relocation expenses for employees from one duty station to another in accordance with prescribed RIF procedures would be avoided. These expenses per employee could reach $80,000 or more. Another major reason for the high cost of RIF is the seniority "bumping" that causes multiple moves in order to reduce the work force by even one employee. A buy out program will save tax dollars, and is a responsible and humane way to reduce the size of the Federal work force.

The proposed payment also represents a sound business decision, inasmuch as each incentive payment will avoid the payment of severance pay, unemployment compensation, and relocation expenses. It also is a sensible way to preserve the diversity of our work force which is needed to maintain the full complement of skills we will need as we reinvent government.

Mr. Chairman, thank you again for this opportunity to present the Department's position on the bill which would authorize voluntary separation incentive payments. The Department urges Congress to enact quickly this legislation.

Mr. McCLOSKEY. Thank you, Secretary Espy.

Secretary Babbitt, welcome.

STATEMENT OF HON. BRUCE BABBITT, SECRETARY, DEPARTMENT OF THE INTERIOR

Secretary BABBITT. Mr. Chairman, Chairwoman Norton, committee members, my experience very closely parallels the remarks that you have heard from Secretary Pena and Secretary Espy, and for that reason I would like just to very briefly characterize some of the facts at the Department of the Interior.

We have approximately 78,000 full-time employees, with a large bump-up in the summer to about 86,000 as a result of the seasonal nature of much of our work in national parks, wildlife refuges, and on public lands.

The dilemma we face is that the demand for our services is escalating relentlessly year after year at about three to five percent. That is the figure in the increased visitors to the national park system, of national wildlife refuges, other sites on public lands. It is paralleled by an increasing demand for services in the Bureau of Indian Affairs, where the population of students is one example, and the Bureau of Indian Affairs education system is relentlessly moving up three, four, five percent per year.

Now, the task that the President has given us is to at all costs maintain that level of service and maintain the quality in the face of the increasing demand at the same time that we are being asked to cut the overall work force at the Department of the Interior by ten percent by 1999. That is approximately 1,500 employees per year.

Now, there is only one way we can do that without a devastating impact upon the quality of the service that we render at national parks and the quality of education that we are obligated to provide in Indian schools and many other functions. The only way we can get from here to there is to target that ten percent cut in middle management throughout our entire agency and to very selectively target a large number of these cuts to some functional areas that are not directly related to our primary service mission to the American people.

Now, against that background, I think it follows very quickly why it is that we must have this authority. People say, well, how about a hiring freeze and attrition? If you follow my characterization of what we do, it does not work because when a park ranger at Grand Canyon retires, we cannot freeze that slot. We cannot watch the quality of that service decline in the face of a larger demand.

What happens when a teacher in an Indian school retires? We cannot freeze that slot. We are obligated to rehire immediately.

So the problem with attrition is obvious. It is a random process, and I must tell you it is higher in the lower ranks where our service interface is concentrated, and for every ten we lose by attribution, we will probably be required to hire three or four or five, a significant percentage, back.

So the bottom line of attrition is it is a wonderful way to simply destroy the quality of the service and the reputation of our agencies and trust and confidence and expectations of the American people.

Now, the second mechanism that we have all discussed is the reduction in force. Now, Secretary Espy characterized the problem with RIFing, as it is known. You can RIF the position, you cannot RIF the occupant. You can take away the position, but the occupant under the civil service laws is entitled to begin passing that reduction all the way down.

And, you see, that is exactly the opposite of what I have to do. I have to squeeze out the numbers in middle management. What the RIFing does is when I take someone out in middle management, it is passed down to the very place where I cannot reduce people.

What it means, for example, is that if I find a supervisory or administrative or overhead slot in the regional office of the National Park Service in Seattle or Anchorage and abolish the position, by the time the bumping is over, the person we lose may be a search and rescue specialist on Mount McKinley or a park ranger in Glacier Bay, or to carry it over to the Bureau of Indian Affairs, a middle level supervisory personnel in Omaha may translate into someone being finally bumped out at the end of the chain in an extreme circumstance in a Bureau of Indian Affairs school in a sixth grade classroom on the Southern Ute Reservation in Colorado, a result that I cannot live with and that ultimately results in no reduction at all.

It is for that reason, as Secretary Pena and Secretary Espy have explained, that if we are serious about these targets, we have no alternative except to do what is being done all over corporate America for exactly the same reasons: in order to preserve customer service, increase efficiency, target the areas of reduction.

And that is just a way of saying finally that the issue that is before you in the form of this legislation can be seen as an enormous problem, but it is also in its ultimate possibility a wonderful opportunity to take the reinvention process that this administration had laid out under the direction of the Vice President and to provide us the tools by which it will be possible for the first time if not in history, certainly within my memory to say we are going to cut out a quarter of a million people, and we can do it and be more efficient, more productive, and render more service to the American people in the process.

In order to do that, we must have your help. Thank you very much.

[The prepared statement of Mr. Babbitt follows:]

PREPARED STATEMENT OF BRUCE BABBITT, SECRETARY, DEPARTMENT OF THE INTERIOR

Chairpersons McCloskey and Norton, vice chairpersons Burton and Morella and members of the Subcommittees, the Administration appreciates the opportunity to testify on H.R. 3345. This legislation is a critical element of our efforts to right-size and streamline the burgeoning federal bureaucracy—a goal that is overwhelmingly supported by the American people, as all of you know. The President and Vice President and members of the Cabinet are committed to real reform—and real reform requires us to make sure the cure doesn't cripple the patient.

For many years, the Congress and previous administrations have grappled with the challenge of engineering the bureaucracy back to basics. Those efforts have been

stymied by the wheelbarrows full of rules and regulations that my colleague, Jim King from the Office of Personnel Management, knows only too well. The President was extremely pleased with the extraordinary effort made by career civil servants that helped lead to the report of the National Performance Review that was released last September. The legislation before you reflects the goals of that report: creating a government that works better and costs less.

Our commitment is clear. The Clinton Administration will eliminate 252,000 positions by 1999. To do that job right and cost-effectively, we need buyout authority. Without that option, our only choice is Reductions in Force, which will make the job a lot messier.

If government is not performing like a focused business—and as you all know, it is not—then it needs change. But it needs change that is carefully engineered, painstakingly planned, and selectively applied, with the active participation of the civil service employees who make government work better. We need to fix what doesn't work, without breaking what does work. H.R. 3345 will give us the ability to do the job right. Without it, it will be very hard to make the government smaller while better meeting the changing needs of Americans.

At the Department of the Interior, we have about 78,000 permanent employees. Seasonal employment expands that to more than 96,000. Most of the employees are in the field—managing 440 million acres of public lands, ensuring the safety and enjoyment of millions of visitors to national parks and wildlife refuges, assisting and processing resource development, teaching Native American children in BIA schools, and providing answers to scientific questions like the case of the catastrophic earthquake in Los Angeles. We need to ensure that the best and the brightest of those employees continue to provide quality public service. If we do not have tools at our disposal to downsize selectively, we will be unable to make government work like it should.

To be able to explain why as a Cabinet Secretary I need your help and support for employee buyouts, I need to first explain what it is we at Interior are trying to do under the "Reinventing Government" umbrella. Our streamlining strategy is designed to meet the objectives outlines in the National Performance Review report, such as promoting entrepreneurial management of the National Park Service, improving royalty collections for federal resources and preparing the Bureau of Reclamation for the 21st Century. Most of Reclamation's work at building giant water projects is over, and it must now concentrate on effective management of those facilities.

We have several "musts"—rules and guidelines that we have kept out front throughout our work on how to improve the bureaucracy. Our rightsizing has as its goal to improve the delivery of services and products to our customers—the people who sent all of us here; improve efficiency, by streamlining organizations and reducing unnecessary management layers that have grown in step with government programs; and empowering the employees who deal directly with people by cutting out layers of bureaucracy.

Following those guidelines, we have prepared a reorganization plan that will result in a reduction of more than 9,000 full-time positions. The first proposed phase is scheduled to begin in this fiscal year, and involves the streamlining of human resources management in the Department. This initiative alone will result in annual savings of 849 full-time positions and about $30 million when fully implemented. As we continue, the average reductions from fiscal year 1994 through fiscal year 1999 will be about 1,500 per year.

If we were to arbitrarily downsize, our analysis suggests attrition alone could get us to these gross numerical targets. But arbitrary downsizing is a very bad idea. It will fail to provide the services taxpayers expect of us. It will not address the needs of our parks, or offer Native children a decent education, or make progress in critical scientific areas like earthquake prediction. A freeze will simply lock in outdated agency structures. That's bad policy, and bad government.

It is imperative that we dismantle obsolete bureaucracies, but just as imperative that we improve critical services that Americans want. Americans want a smaller deficit—but they rightly expect that their national parks will be open for their families. We can do both—and we can do both better.

From that perspective, we need to have the ability to rightsize our organization. While doing so, we must protect employee morale and avoid a climate where every federal worker is terrified they are about to lose their job. In my agency and throughout government—right now—people are standing by waiting to see if this bill passes. Some of them are not taking early retirement because of that. Many of them will not leave if there is no buyout program. I know there are concerns that a buyout program could be seen as some sort of government perk. It is not. What it is is a sensible business proposition that enables the government to save money

and solidify employee morale. Reducing the deficit requires tough choices. H.R. 3345 will help us manage government to serve taxpayers better. Without the authorization in H.R. 3345, RIFs—Reductions in Force—lets management decide which positions to abolish, but not which people leave the workforce. The RIF rules perpetuate the status quo, by shielding long-term employees rather than those who are better regardless of longevity.

Instead of improving an agency's efficiency, RIFs can make matters worse. RIFs don't encourage the departure of higher-grade employees—they actually compound management problems. It is our determined opinion that RIFs are indeed more costly than buyouts. A GS–14 employee who has 18 years with the government will receive $76,688 in severance pay if he or she is RIFed. He or she would receive $25,000 if a buyout were authorized and accepted: a taxpayer savings of $51,688. The larger plan is obviously more complicated than that—but I find that illustrative.

We have launched a number of Interior initiatives to more effectively downsize. I have requested department-wide early retirement authority from the Office of Personnel Management. But, once again, we believe that will not be enough of an incentive for many who are actively considering accepting a buyout, if they are presented with the opportunity. We are preparing for aggressive out-placement services for employees, focused hiring restrictions, reassignments within DOI, relocations and cross-training. These actions will help. But of this be certain: Without buyouts—to meet the reduction goals that Congress mandated and that the Administration and I strongly support—we will definitely use Reduction In Force procedures, and it will be costly.

I urge you to join with us in support of this effort. We can start real change, real improvement, in how government works this year. If buyouts are authorized by March, we can offer the option to employees at the GS–12 level and above and save half their annual salary. If we don't have the authority until July, we would lose the chance for those savings this year, though we could still save considerable dollars in fiscal year 1995. This government needs to seize opportunities like this. If it does, it will run better for its employees and the American taxpayers.

Ladies and gentlemen of the Committee, I urge you to act on H.R. 3345, and to act as swiftly as you can fairly deliberate the matter. I thank you for your time, and will be happy to respond to questions.

Mr. McCLOSKEY. Thank you very much, Mr. Secretary, all three secretaries.

I might say, Mr. Babbitt, I'm thinking of climbing Mount McKinley next summer. So I am counting on you. [Laughter.]

I particularly want to thank you for your testimony because, quite frankly, it anticipated probably the first question I was going to ask, to state in laymen's terms what happens throughout an agency to public services in the event of a RIF.

I think you documented that very well, but could you say something about morale, uncertainty and job corps instability given such a scenario? I would like to ask all three of you to comment.

Secretary PEÑA. Is this working now?

Mr. McCLOSKEY. Give it a try. I am not sure.

Secretary PEÑA. Well, in terms of job morale, Mr. Chairman, it is very clear that, one, the process that Secretary Babbitt described where you impact the almost innocent person at the lower rung often times front line workers, totally demoralizes the work force, and from a management perspective, we are getting rid of the wrong people, and it makes our job even much more difficult.

I would rather give the incentive to those individuals who truly want to leave, and there are many who do want to move on to other things. It is now time in their lives. They have been in our department, 20, 25 or 30 years or so. The opportunity to do that, but to do it on terms which are reasonable and fair to them.

I think that will boost morale. So for those reasons I think this buyout program is critically needed for all of our departments so that we can send a very positive message to the work force.

Again, as Secretary Babbitt said, you could look at this as an opportunity to do it correctly or we could do it incorrectly, which I think would have very terrible implications for our morale and, in fact, the way in which employees deliver services because if you do not feel good about your job, if you do not feel good about how you have been treated, many times that will be reflected in the quality work that you provide the American people.

Mr. McCloskey. Okay. Thank you, Mr. Secretary.

Secretary Babbitt. I would only add, again, a brief example. We are already making enormous demands upon our employees. For one example, the Bureau of Reclamation in my department is undergoing an extraordinary reorganization and a dramatic downsizing. It used to be the largest construction company in the world, but there are not many more dam sites left, and so we are phasing out the construction company and moving toward creating a water management agency.

In the course of that, we are making extraordinary demands on people to retrain, to relocate, to assume responsibilities that have never been a part of their job description.

If you stack on top of that sort of this uncertainty and you say to an employee, "We want to buy you, and we believe in you, but we are going to retrain you," and in mid-career, kind of at my age, we are going to say, "We want you to move to Fargo, North Dakota, and undertake a series of things that you never did during those years when you were living in sunshine down in Boulder City, Nevada."

Then you say on top of it, "And we do not even know whether we will fire you after you arrive in Fargo." I tell you you have got some problems.

Mr. McCloskey. Mr. Espy.

Secretary Espy. On what you have heard, Mr. Chairman, I could embellish it just a bit. We tried a freeze in the USDA. One of my first actions as Secretary was to freeze hiring. I thought I had to do that in order to get a hold, on the situation.

But I will tell you it is a difficult way to manage an agency this large because in the cases of a national disaster, such as we had this summer in the Midwest, you have got 8 million acres of farmland flooded and 21 million acres of farmland adversely affected, untold numbers of folks being displaced from homes and severe disruption in life with their livelihoods.

We had to transfer many employees from other areas of the country to the flood states in the Midwest to help with this recovery, and some of them are still there. If we did not have to have a freeze, then we could have had more flexibility in dealing with that situation.

So a freeze on employment is not the best management tool, let me tell you, but we did it in any regard.

The bumping aspect of a RIF has been focused on. Just let me say that this element of uncertainty does hurt morale when the employees hear and read about the so-called rumored RIFs. Yet, there might be a $25,000 cash incentive payment available if the Congress will approve it.

Potential RIF's operate as a chilling effect on employee mobility, and it does not allow the employee to make his or her own family decisions, and it does hurt morale.

We need to have this buyout tool so that we can make the kind of management decisions that are necessary.

Mr. McCloskey. Just to cover one the questions, how do I explain to a conservative Republican farmer around Montgomery, Indiana, why civil service employees at Crane are deserving of a VSIP or buyout when, let's say, they're already qualified for 24 years' retirement pension?

Secretary Espy. Well, if this particular conservative farmer is sincere about budget reductions and the deficit reduction impacts, then I could show that conservative farmer in Indiana this Forest Service chart. Although this chart relates to the Forest Service only, it is a discipline of calculations that would certainly apply to the farm service agencies as well.

So as Secretary Babbitt said, in order to get from here to there, it costs a lot less money to do a VSIP than it does to RIF, and you tell that farmer that we are going to offer the same level of service in Indiana as we have always done.

Mr. McCloskey. I want to talk to you about those office closings.

Secretary Espy. I bet you do. [Laughter.]

Mr. McCloskey. Thirteen hundred sounds like an awful lot. That will be another conversation.

Secretary Espy. I am afraid we are going to have to have it happen, too.

Mr. McCloskey. Ms. Norton.

Ms. Norton. Thank you, Mr. McCloskey.

During the prior hearings that we had, most of the committee were very concerned about the target of the buyouts. Can you tell us more about who you expect to take advantage of these buyouts and how your plan addresses maximizing savings?

Secretary Peña. In the Department of Transportation, Congresswoman, we are targeting GS–13 levels and above for the buyout program, in other words, middle management, upper management. That is where we think we need to focus.

The beauty of this tool is it allows us to focus. Attrition does not allow us to focus, and the other options that we discussed today do not give us that flexibility, and so in a sense we can, in effect, reshape the department, restrategize, change our functions, bring in different skills, and make us much more flexible for the future.

So that is the category that we are targeting.

Secretary Babbitt. I would only add I think that is an answer you would hear from all of us. The only way that we can possibly make this work is consolidation and efficiency and reduction in middle management.

Someone said to me last week, "Well, look. You have got all of these temporaries. You have a 78,000 base that goes up to 86,000. How about all of the temporaries?"

Well, the fact is if you visit a national park in the summer, most of the rangers in specialty categories, biologists, research and rescue people, the ones with the most essential talents, are temporaries. They come out and work at a fraction of their wage from universities or all kinds of other places. So we cannot touch that

temporary. They are already carrying the burden of what the public has come to associate with the image of the National Park Service.

We cannot go around firing low level people. They are providing the services. So that is really the bottom line in terms of this targeting issue that we have to have.

Now, I recognize that the use of these plans has got to be carried out in a very effective way. There are lots of examples where they work wonderfully. In corporate America, we have seen a number of areas in this government where they work. There have been some failures. I think that the key to making them work well is real selective targeting so that you do not get overwhelmed with a response that you cannot handle.

On the other end, you do not get in trouble with the civil service laws by doing targeting that is aimed at specific people. We have all been working with OPM and OMB and all the other agencies, and I think we can pull it off, but we have got to get going. We have not got much time.

Secretary ESPY. It is difficult to give you a complete answer, Congresswoman Norton, because I am not sure that we have done a comprehensive plan.

Probably buyouts would be concentrated on the GS–13 level and above. Those constitute middle and higher level management. At USDA we have a large number of men and women close to retirement age, and perhaps this incentive could be offered to them.

And then lastly, I would say to you that within the USDA, as I indicated in my testimony, we are trying to collapse 43 agencies into 30 right away. After the mark-up of the USDA Reorganization bill in the Agriculture Subcommittee, hopefully the bill will move to a quick full committee mark-up and then to the floor. We anticipate the Senate will do the same. I am going to begin implementation of the reorganization as soon as I have legislative authority, within the 13 agencies that will no longer exist where we have much duplication. If we get an early buyout authority, as a management tool, we can begin to concentrate on those employees who serve in these agencies under consideration for consolidation.

I should not be too specific because the world is watching, particularly our USDA employees, but one agency which will no longer exist is the Farmer's Home Administration. It has been around for a long time, and under the plan we have proposed, we will eliminate Farmer's Home.

This agency has two principal functions: One is to serve as the lender of last resort, to offer loans and grants to farmers that, because of many reasons, cannot find a loan from the production credit associations or the local banks. That function will shift into what I hope will become FSA, Farmer's Service Administration.

And then the other function, the function relative to housing loans, housing grants, and community grants, will go to a successor agency to be known as the Rural Housing and Community Development Service.

If we get early buyout authority, perhaps employees of the Farmer's Home Administration would have first shot at taking advantage of it.

Ms. NORTON. Could I ask a different question? I would be interested, Secretary Peña, in your experience in Denver where you fielded, in fact, a great many more for voluntarily leaving the city government than you would have expected. I would like to know if that was under a buyout or some other way?

I would like to ask Secretary Babbitt how one does buyouts when so many of your employees are seasonal anyway? How does one buy out a seasonal employee or manager, or are those people to be left untouched?

And I would like to ask Secretary Espy about the actions of the plan. I thought that 25 percent of the folks were supposed to be bought out by now for Fiscal Year 1993, and so I wonder whether or not your agency has a plan or why there is not an explicit plan.

Secretary Peña.

Secretary PEÑA. Let me answer the question you addressed to me, Congresswoman.

In Denver, we have a buyout program that was a little different in terms of criteria than the one being proposed here. We did a survey first among employees to get a sense of the level of interest among employees, and we are doing that now at the Department of Transportation. We are already beginning to generate numbers of potential applicants for this program.

But you are right. We were surprised that when the program was finally put together and it became a reality, people then took full advantage of it. I think we may see the same thing here, depending on how we structure this one, and we have to be very careful about that.

As Secretary Babbitt said, we simply do not open the flood gates so widely that you have unintended consequences, but when it becomes a reality, I think people will focus more on the potential that, in fact, they could take advantage of the program.

The other thing that we learned from the Denver experience is that after this happens, we then have to be very disciplined in making decisions about whether those positions are going to be filled and how they are going to be filled and by whom, because if we are not disciplined after this process occurs, it is very tempting to immediately simply fill all those positions all over again, and you lose from a savings perspective the potential savings over a five- or ten-year period.

But overall, the program was successful, and again, if we can do it in a local governmental setting, we can certainly do it in the federal government.

Ms. NORTON. So it was the mere focus, finally, that it was real, that the buyout was real, that brought forward the larger amount that no one expected. Nothing else, or nothing specific about the plan or the approval for the plan itself?

Secretary PEÑA. Well, we did a lot of education, and I think when the plan was finally put together, the payout provisions were I would not say generous, but they were acceptable, and again, when people saw that it was a real program, they then opted for it, and because it was the first time the city had ever done it and people then asked, "Well, are you going to do this again?" and I said, "No, this is only a one-time opportunity. So three years from now or four years from now we are not going to do it again," I

think it really focused people's attention on do it now or do not do it ever.

We are already beginning to sense some of that now because the attrition rates have gone down so dramatically. People are waiting. They are thinking this may occur, and so we are seeing evidence already of people's behavior changing because they think that it is going to happen.

Once it happens and the legislation is passed and the program is implemented, I think we will see the kind of interest that we are predicting.

Secretary BABBITT. In response to your question, we do not need to do a buyout of the seasonals. All we would need to do in theory is not to rehire. It is ironically the most destructive way of all to solve this problem. Every seasonal that you do not rehire is probably a quarter or maybe a third of an FTE. So in order to get your targets, you have got to sack three or four for every one.

But in any event, they are precisely the people that we must keep because they are in almost every case on the front lines.

Secretary ESPY. Well, in response to your question about a plan, maybe I was not clear, and I apologize for that. We have a plan for reorganization of the USDA. This is the book that contains our plan and it has been provided to many members and committees of the Congress. It is very specific with regard to reduction in FTEs, grade level, agency, GM–14's and GM–15's and SES. It is very specific, but I am just not clear how the buyout would impact on this.

If we do not have a buyout authority and if we have to resort to RIFs, then we will have an incredible amount of bumping that will take place within all of these grade categories, as well as lower grades. I am not sure we have a specific detailed plan on how the buy-out authority would be used, but we certainly have a work force reduction plan, which includes the use of the buy-out authority as a way to increase the attrition rate.

We know where we want to get. I am just not sure we have the tools to do it.

Ms. NORTON. If Congress approves buyouts, will you draw a plan that is aimed specifically at specific positions and specific functions? I am worried because of this March 15 drop dead date that is looking us in the face. Do all of you have plans? Do all of you know that if we said go, you are already behind because we did not say go soon enough?

Are you ready to go? Are you ready to say, "Here are the kind of people we want out of here"?

Secretary BABBITT. We are absolutely ready to go now. For obvious reasons we are not eager to put those plans, if you will, out on the street because, again, the level of apprehension and chaos and disorientation in which you have put out a plan against authority that you do not have. It is a good way to kind of disrupt a work force unnecessarily.

Your question about the urgency of this, I think, is very important because if we are to escape from this year without large, negative budget consequences, we need to get these buyouts going in the first quarter so that there will actually be a salary offset in this year.

In theory, you know, you could deliberate all summer on this and pass a law in November and tell us to do it. The effect on the budget and all of the related issues I do not need to describe to you. If you multiply, you know, by at least two and probably more, rather than coming out fairly close to a neutral result, as Mr. Peña explained to you.

Ms. NORTON. Mr. Peña, you had something to add?

Secretary PEÑA. Yes, Congresswoman. Each of us have very specific plans on how we are to proceed and what level we are targeting, but as I said earlier, we have already done an informal survey at the department, and we have identified already 3,000 people who have indicated an interest.

So people are aware. We have reached out already. We do not want to give people false hopes obviously, and we want this legislation to be passed as quickly as possible, but that process has started, and we are ready to go.

Ms. NORTON. Thank you very much, Mr. Chairman.

Mr. MCCLOSKEY. And thank you, Ms. Norton.

While you are here, just as an aside, I have a special concern, and I think just as Congresswoman Norton may and others on the committee, about the status, which historically has been substantially exploitative as many, not all, but many temporary employees with people working there 13, 15, 20 years, full-time equivalents, being fired or laid off once a year to be hired back next Monday. All that time, as you know, no benefits, minimal to no health insurance, no retirement.

With some strong leadership and Ms. Norton, we introduced a bill. We are running into some pay-as-you-go concerns obviously, but if we can get your help on that, something has to change there very soon. We cannot go on like this, exploiting a significant number of Americans. It is a special concern, and I appreciate it.

Mrs. Morella.

Mrs. MORELLA. Thank you.

I want to thank you, Mr. Secretaries, for appearing before us with some previews about what you are planning to do.

Our poor federal employees have been bashed so often that they live in a state of absolute uncertainty in terms of what is going to happen day by day, and I think it is important to give them some stability and recognition, and I am concerned about how.

I believe in the buyout program. We have got to pass it as soon as possible, as you mentioned. I was an original sponsor of the legislation, but I have a concern about who is going to avail themselves of this program.

I mean, for instance, Secretary Babbitt, you indicate the cost effectiveness of the buyout program, and I agree with you, because you indicated a GS–14 employee working 18 years with the government will receive almost $7,000 in severance pay if that person is RIFed.

Okay. So what is the incentive for a person like that in mid-management to say, "I will go the buyout route"? And as a matter of fact, since the buyout amount is up to 25,000, which means it could be considerably less in some instances, you are going to have to do a pretty snappy job of engaging these people who have been targeted as the ones that you would like to see avail themselves of

this opportunity for them to want to do it. It is probably on their mind—how I would feel if I were a federal employee in that status.

So if you would like to embellish, and secondly, what if employees decide against it? Is this then going to be the RIF result that will affect women and minorities and last hired, the lower income people?

So it is a two-pronged question. Do you realize there is a barrier to engage people to avail themselves?

Secretary BABBITT. Well, there is actually quite a bit of experience and, you know, literature available on, you know, what happens if you make an offer which has the following characteristics relative to the computation of severance pay, accumulative benefits, how it impacts your retirement benefits and all of that, and I think that we can be fairly predictive not because we know the minds of our middle management people, but because we really can see comparable experiences at the CIA and Defense and IBM.

There is a little bit of uncertainty, but not nearly as much as you might guess.

Now, since I have, you know, accumulated some years in public service and from time to time begun to think about these issues myself as I reach the mellow age of 55 years, what I find entering into my own calculations from time to time as I discuss this is I have got a retirement home back in Flagstaff, Arizona, where all of my family is, and you know, sometimes when it is tough around here, it looks pretty good, and there may be a time, not yet, I assure you——

[Laughter.]

Secretary BABBITT [continuing]. Not during the first Clinton administration and not during the second Clinton administration, but somewhere along the line I think I will be willing to say, as I analyze, as I put a pencil to all of this, and say I would rather retire now a little less income than put up with the hassle of doing something that maybe I am a little burned out on; maybe I am a little tired of, a very subjective calculation.

Secretary PEÑA. Could I also elaborate on that?

I have brown bag lunches with employees where by lottery we pick people to come have lunch in my office and do it regularly, and so I get a lot of feedback from people, particularly mid-level managers who are concerned about this program.

What I am sensing is that people would rather have some control of their lives and recognize that they do have options before them so that they can make a calculated, informed decision about taking a buyout. Yes, at a lower level in terms of monetary payout than being handed a slip someday saying, "Congratulations, you are gone," without sufficient notice to make major career changes many times, insufficient time to plan, and oftentimes a very shocking experience.

So I think people would like to have that option and that flexibility to dream the dreams that Secretary Babbitt dreams.

Secretary BABBITT. Flagstaff, Arizona. [Laughter.]

Secretary ESPY. Well, I have no retirement home yet in Mississippi, Mrs. Morella. I hate to be repetitive, but we want to eliminate the uncertainty aspects of this, as quickly as possible. These

employees should be given that choice, as soon as possible. It is best all the way around.

Mrs. MORELLA. I think it has to be done. I think it is imperative. I think it is cost effective. It is looking to the long run, but I think sometimes we operate in the field of dreams. I just want to add that the reality may not be what we are talking about today.

Secretary Espy was in my class. May I invite you to Montgomery County, Maryland, to visit our Agricultural Stabilization Conservation Service offices? I think I have in a letter, and I would like to reiterate that invitation.

Thank you.

Secretary ESPY. I will do it.

Mr. MCCLOSKEY. Thank you, Mrs. Morella.

Mrs. Schroeder.

Mrs. SCHROEDER. Thank you, Mr. Chairman.

I want to thank all three secretaries.

I think one of the things they can do to help this committee because this is almost like you are preaching to the choir, is to talk to the other legislative committees that oversee your agencies, to really work them hard because I think an awful lot of people do not understand the details of the buyout, and there are an awful lot of things floating around out there, and it is going to be difficult, I think much more difficult than you would think if you were watching this hearing, to get the buyout through.

I assume all three of you asked OPM for the authority to do early outs, and do you have the authority to do early outs?

Secretary PEÑA. We are waiting to hear officially from OPM, but I believe that will be granted based on initial discussion. We have formally made the request. But early-out authority while helpful is not enough. That tool is insufficient to get the job done.

Mrs. SCHROEDER. But it is one tool, and I just wanted to make sure everybody had exercised their options. That helps us make the case on the floor.

Has everybody else asked?

Secretary BABBITT. We have asked and received permission from OPM/OMB, whatever, and we are, in fact, using that authority.

Secretary ESPY. We have asked and have not received early-out authority yet. Again, I would say to you that early-out authority is probably not enough.

Mrs. SCHROEDER. It is probably not enough, but I think the first question that we need answered is, is OPM dragging its feet? It gives us some momentum to say everybody has asked for this, but it did not go far enough. So I think that is an important piece to have in the puzzle.

Secretary Babbitt, let me say in Colorado we are a little concerned about what all of this means as we see the Bureau of Mines, Fish and Wildlife, and Reclamation all appearing to be chopped, and it appears that they are going to be moved out of there.

One of the things I think people outside of the Beltway feel is that the federal government does very well in some of the areas where there is a concentration of people utilizing that service, for example, the Bureau of Mines. Mines happen to be concentrated in Denver, and we have many, many, practically all of the home offices there. So we are puzzled why that is being shut down.

Secretary BABBITT. Congresswoman, as you know, Denver seems to have become my second home.

Mrs. SCHROEDER. And we like having you there, too.

Secretary BABBITT. Every week for the last ten weeks, what I am discovering is the Department of the Interior really has a second base, administrative base, really a large presence in Denver.

Now, if you accept my characterization that what we are after are these middle management layers, I will have to concede that some of that will fall on Denver more than it will upon other Western cities because Denver is where our supervisory and managerial weight is concentrated in the West.

We will, of course, be exceedingly careful not to eliminate even one position in addition to what is absolutely necessary.

Mrs. SCHROEDER. Well, I hear that, and I appreciate that, and we understand we get our fair share, but I guess the Bureau of Mines, in particular, has concerned us because it appears we are kind of rolling that one up, and we hear a lot about the new Centers of Excellence, but we do not hear about one being in Denver, and it seems you would want it where all of the headquarters of all of the mining companies are.

One of the reasons, obviously, Interior has a large presence in Colorado is because most of the federal lands are west of the Mississippi, and it certainly cuts travel time and everything else if you are right where the things are that you administer.

There is some fear that regional offices are all going to disappear and everything is coming to Washington, and there are not many things I praise President Nixon for, as you might imagine, but I do think the regional office structure has been one way that people feel that the government has been more user friendly on a lot of these issues.

Our delegation has been concerned about mining and some of the other things that appear to be moving back to Washington, but we can deal with that.

Secretary BABBITT. There really is no pulling back in the reorganization plan. There is some consolidation, and my Bureau of Mines problem is really a Mike Espy problem. It really is. There is a substantial consolidation going on, and we are faced with consolidating 14 of these offices, which there is not a person in the industry or in government who will stand in defense of those 14.

There must be a major consolidation from 14 to six. Now, the question which I hesitate to explore today is which six in which states.

Mrs. SCHROEDER. Yes, I mean I do not think it would make a lot of sense to move it to the Virgin Islands or something where there is not a lot of mining, but we can talk about that as we go along.

Let me ask one other question for the menial curmudgeons that we run into all the time. I understand, and I thought you all three did an eloquent job of explaining the problem of freezes and the problems with RIFs and how you really have no control as managers, and it can put you in the worst possible position.

What do you do with our colleagues who we sometimes think have the heart the size of a swollen pea, but our colleagues who say, "Well, then change those rules"?

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Secretary BABBITT. Well, Secretary Peña, how would you like to answer that?

Mrs. SCHROEDER. Well, let me just say it goes——

Secretary PEÑA. Let me try. Obviously people have thought about that for some time, but nothing has ever happened. We have experimented with this program already at DOD and CIA and in other agencies. So we know it works in the federal government, and we know it works in the private sector. We know it works in the local government level.

And so to your colleagues I would say we are running out of time. If we are serious about delivering to the American people today and making this government work better for people now and giving better service and being more customer friendly. Now let's do this today.

The answer is here. All we have to do is get this legislation passed, and so that would be my response, but we have got to move on.

Mrs. SCHROEDER. I hear you, and I just want that to be part of your plea as you explain why this kind of thing does not work to some of the people on some other committees.

I think that the civil service is a very difficult concept for most people to know about, and once you get beyond this committee, if you did a test on the House floor about the difference between RIFs and freezes and buyouts and everything, their eyes glaze over, and they stare at you like a deer staring at the headlights.

So we are going to need everybody's help to get this through, and I appreciate your being here, and we will put you into the circus to help us try and sell it.

Thank you.

Mr. MCCLOSKEY. Thank you, Mrs. Schroeder.

Mrs. Byrne.

Mrs. BYRNE. Thank you, Mr. Chairman.

I have just a follow-up series of questions. Secretary Peña, you had stated that you did an informal survey of your employees, and that you could identify 3,000 employees that were interested in buyouts, and you gave us the figure of 2,000 cuts by 1995.

What happens if this works too well? What happens to the management? And I am very serious. What happens if you have a gold rush on buyouts where you cannot assimilate those people who are leaving to the point where it hurts your programs? I mean how are you going to target those people after they have already been eligible and continue to want to have the buyout ability? How are you going to say, "No, you cannot have it"?

Secretary PEÑA. You hit on a very important dilemma, and that is why the program has to be structured very carefully so that you are not overwhelmed by disproportionate buyout requests because that could have an unintended consequence, and we are working through that process now.

There is another unintended consequence that I experienced in Denver, which we simply have to be honest about, and that is that in a few circumstances we will lose very talented people. I want you to know that. I understand that. I have gone through this before, but on balance, the overall program works, and on balance, the results are quite positive.

And, again, we have to be vigilant in making decisions about how we begin replacing and when to replace positions that are vacated by the buyout program. If we are not thoughtful about that, we would not get the savings that we think we can get over the next five, six, seven-year period.

So we have learned a lot from the experiences of corporate America. Some have done this properly; others have not, and I think we have got the best of that experience.

Mrs. BYRNE. Thank you.

Secretary ESPY. Could I add to that?

Mrs. BYRNE. Yes.

Secretary ESPY. I do not believe we are going to have a gold rush on this, but even if that begins to happen, there are other tools to use to give employees incentives to remain and to stay around, and these tools would be in the nature of bonuses and certain cash awards, transfer authority and program changes, all kinds of things that we can do.

But I do not think that is going to happen, particularly at the USDA.

Ms. NORTON. Would the gentle lady yield?

Mrs. BYRNE. Yes.

Ms. NORTON. If there is a gold rush, then you just have more choice, you do not pay out to as many people. Your hands are on—how many metaphors can we mix here—your hands are on that. Just do not push it, and people have to remain in place.

Secretary BABBITT. Yes, I think that is exactly correct. All you have, I think, is some dashed expectations and a little bit more of a morale problem if you sort of nail the notice on the bulletin board of the C Street entrance of Interior Department offering 80,000 people the buyout. That is absolutely correct. It is a management problem.

My own feeling from our preliminary work is that the margins of uncertainty here are not as large as they would appear, particularly as we have done our work with some surveys and worked with management and thought very carefully.

Mrs. BYRNE. I mean, Madam Chairman, if I might, the concern that I have, although we have had a so-called successful buyout program for the Library Congress, what we did see was an amazing sight of a lottery, of people lining up at three o'clock in the morning in front of the building to avail themselves of that buyout, and I think that while, Secretary Babbitt, you said you need 1,500 employees out for 1995, and we all agree that RIFs do not make any sense, they are expensive, but I assume you have got some kind of way that you are going to determine who gets, even though they are all eligible, who gets the buyout and who does not.

And I guess what I am asking is what is that. I mean are you going to have a lottery like the Library of Congress and just say first come first serve?

Secretary BABBITT. My own sense is, and Secretary Peña may have something to add, my own sense is that you resort to a lottery when your analytical distinctions have kind of faded out. It is certainly not the first way to go.

I mean what you do is target a group by functional positions and say we are making the offer against these functional positions in this order, not in a random way.

Now, it may be that the universe against which you are making the offer is absolutely uniform and there is no way of rank ordering by function. My own sense in our department is that the lottery is not going to be a major piece of this because we can sort of draw those distinctions in terms of how they are ranked.

Secretary PEÑA. One option that we are pursuing at DOT, Congresswoman, is having all of the agency heads prioritize where the options should be made available, starting at the highest levels and working down, and then probably somewhere along that process we will have to settle on a number below which we will not operate. At least that is one option that we could pursue to prevent the lines that you saw in the Library of Congress.

Mrs. BYRNE. Thank you, Mr. Secretaries.

Thank you, Mr. Chairman.

Mr. MCCLOSKEY. Thank you.

Maybe just one or two questions. I might say that I think you have done a marvelous job. I think that significant landmarks are stating the real priority on these issues.

There was an interesting article in Governmental Executive I read the other night preparing for this hearing. It mentioned some contrasts or numbers as to I guess what we would call political appointees. I am curious. Do all three of your agencies have the political appointment slots filled?

There was commentary in the article that some years back there were not deputy assistant under secretary and assistant chief squire, and so forth, which were basically described as, people who stand in when the deputy assistant assistant's secretary was called elsewhere.

One person said this could be tens of thousands of slots, which I doubt, and another one said it is only 3,000, but we are all politicians to a certain degree, and these people are near and dear to our hearts, depending on the administration, but they do have significant administrative functions which obviously has to tie in on the responsibility to downsizing.

Is there any thought as to what happens with political appointees or has it been discussed much as to whether any of our dear friends will have to face even newer and greater alternatives?

Secretary BABBITT. Mr. Chairman, I would answer for my department. I was, frankly, quite amazed at the small number of Schedule C employees in the Interior Department. Subject to correction by Theresa, I think it is less than 50 in a department at full strength of 86,000. It is really a very small number.

Are they all filled in my department? Yes, except for the position of under secretary, which is a statutory job, and with respect to that vacancy, I commend myself into your tender legislative hands. [Laughter.]

Ms. NORTON. Would the gentleman yield?

Mr. MCCLOSKEY. Sure. I am sorry.

Ms. NORTON. Just to add to his question whether any of those posts have been similarly targeted for dismissal. I am talking about Schedule C's.

Secretary BABBITT. In my case, no.
Ms. NORTON. Political appointees.
Secretary BABBITT. In my case, no.
Secretary ESPY. In the case of Agriculture, we believe that no one should be spared as we move to streamline; that nothing is sacrosanct. Certainly within the area of Schedule C's, we have some unfilled positions, and I am striving in some cases not to designate a person in several of those spots. Some of those PASes, those presidential appointees, Senate confirmed folks will lose their positions. It is a catharsis over there now because you have got turf concerns, of course, and even behind lofty level PASes, some of them will not be able to remain if we have our way. So we believe that no one is really spared.
Mr. MCCLOSKEY. Thank you, Mr. Secretary.
Mr. Peña.
Secretary PEÑA. Congresswoman, those are not scheduled for buyout and will not be available. I would suggest this: that if we are going to——
Mr. MCCLOSKEY. Oh, I understand that, but I have got ultimate downsizing.
Secretary PEÑA. Well, what I was going to say was that to the extent we want to pursue this, and I have the same situation that Secretary Babbitt has, about 100 positions out of 105,000. So I would not suggest that is an extraordinarily large number, but perhaps this would be an administration-wide policy that we would have to focus on rather than doing it department by department, and I think that is something we probably can discuss among ourselves and try to be consistent throughout the government.
Mr. MCCLOSKEY. Another item that was in that article, and I am on the Armed Services Committee, is that of the 252,000 jobs, and I do not know whether it is correct or not, but you know, Government Executive said 160,000 of them are going to be defense. I take that as being probably true right now. DOD has undertaken their downsizing. Do you know (a) if DOD is included in administration numbers, and (b) how did you come up with your numbers in the agencies on the downsizing? Were they mandated or subject to any kind of analysis or input?
I assume there was some.
Secretary BABBITT. That is a correct assumption. The DOD number obviously is large and relates to the down- sizing of the Department of Defense.
Mr. MCCLOSKEY. It is still counted against the 252.
Secretary BABBITT. I understand.
The process that we went through to assign these reduction targets throughout the cabinet was directed via and was an integral part of the budget planning process, and if you look across the raw budget numbers, obviously there is a correlation, and that in the final analysis was the decision of the President through the OMB process.
It in the final analysis, I think, reflects a variety of factors that ultimately have come to rest on the President's desk. For example, EPA from my budget cluster includes a part of Secretary Espy's operation, the Department of Energy, and on military, part of the Department of Energy. EPA and ourselves have had an intensive

workout process at OMB looking at relative priorities, looking at crosscuts among the budget, and finally we marched up and got a slip of paper called ASBAK. We were gently advised that we could protest directly to the President, but in the spirit of being team players we were all drawn to soak up our share.

And the three of us kind of got short straws in the process. That is to some degree why we are here today.

Mr. MCCLOSKEY. Well, I appreciate that, Mr. Babbitt, and thank you so much.

Ms. Norton, further questions?

Ms. NORTON. No more questions, Mr. Chairman.

Mr. MCCLOSKEY. Mrs. Morella.

Mrs. MORELLA. Actually my question, Mr. Peña, is the idea that over half of the 252,000 reductions were relating to management positions—from seven employees per manager to 15 employees per manager. We anticipate reducing the managers by about 140,000 positions over five years.

I just do not know what that really means. Does it means the others are going to follow DOD civilians and the other agencies? Can you shed any light on that? I would be satisfied to wait for adopted change on the answer unless you know.

Secretary BABBITT. I think all three of us would unanimously adopt your suggested answer to the question.

Mrs. MORELLA. I appreciate that.

Mr. MCCLOSKEY. Thank you.

Mrs. Schroeder?

Mrs. SCHROEDER. No further questions. Thank you very much.

Mr. MCCLOSKEY. Gentlemen, is there anything that you would like to say in parting that has not been raised or any other observations to make?

Secretary PEÑA. Let's do it.

Secretary BABBITT. Do it, do it. Thank you, sir.

Mr. MCCLOSKEY. Thank you so much.

That leads us to our next panel. The Honorable James B. King, Director of the OPM, will address us first. Also the Honorable Roger Johnson, Administrator of General Services Administration; the Honorable Hershel Gober, Deputy Secretary, Department of Veterans Affairs; the Honorable Daniel S. Goldin, Administration of NASA; the Honorable Madeleine Kunin, Deputy Secretary, Department of Education; and the Honorable Walter Broadnax, Deputy Secretary of the Department of Health and Human Services.

Good morning, most distinguished witnesses. I know you are not quite the cabinet secretaries yet, but this is a heavy duty line-up none-the-less. Welcome. This has been a very valuable hearing so far, and you are going to make it even more so.

I think it might be good to start with Mr. King if that is all right to talk about things from a general federal, national perspective, and then go through the various agencies.

For a couple of them, Veterans and Health and Human Services I have some specific questions, and I am sure others do as well. So, Jim, it is good to see you. I hope you had a good holiday, and I look forward to working with you this year.

STATEMENT OF HON. JAMES B. KING, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT; ACCOMPANIED BY HON. WALTER BROADNAX, DEPUTY SECRETARY, DEPARTMENT OF HEALTH AND HUMAN SERVICES; HON. MADELEINE KUNIN, DEPUTY SECRETARY, DEPARTMENT OF EDUCATION; HON. DANIEL S. GOLDIN, ADMINISTRATOR, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION; HON. HERSHEL GOBER, DEPUTY SECRETARY, DEPARTMENT OF VETERANS AFFAIRS; AND HON. ROGER JOHNSON, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

Mr. KING. Thank you, Mr. Chairman.

Mr. Chairman, I was going to submit my comments for the record and summarize. I was just wondering whether it would be more useful for us to go left to right, and then OPM would hit its new stride, which is that of the supporting and subordinate nature.

Mr. MCCLOSKEY. We are going to start with you, Jim.

Mr. KING. Then I am delighted, Mr. Chairman.

If I could, I would like to submit my testimony for the record.

Mr. MCCLOSKEY. It is accepted for the record.

Mr. KING. What I would like to do is just limit my remarks to a few thoughts, and I apologize that I make my plea, as it were, to this committee because this committee has already chosen to do the right thing and provide the leadership, I think, that is essential in this particular program.

My hope is that through you the message can be taken to your colleagues, and that is very simply in all my years in government, a number of the choices that we face are quite often between shades of gray, if you will; that there are not clear choices.

This time on this particular issue, I believe, we have a choice between right and wrong, good and evil, save money versus waste money. It is that simple, Mr. Chairman, and that is the issue before us.

If the Congress passes this legislation immediately, it will save us, and I am going to talk about my little agency. It will save us 156 positions that will not have to be RIFed. Our agency will be smaller because we are managing more effectively, but it will save us from involuntary separations as opposed to the more coherent approach of using all of the tools available to us within the federal service.

What I am asking for is that 156 young people not have to go to the street, as it were. We do not have to put them through the trauma and the pain for no good reason other than an unwillingness to be timely.

What do we have now? As you look across government, you have heard from three cabinet secretaries, and we will hear from more people. What I am talking about is going to affect hundreds, even thousands of individuals because of RIFs.

RIFs cost more. Very simply put, let's put every other comment to sleep. RIFs cost more. If you care about the taxpayers' money, if you care about good use, if you care about good management, RIFs cost more.

Please, I have heard this pushed back and forth. There is no debate on that.

Secondly, I would like to suggest that RIFs result in all kinds of nonmonetary problems. I have heard them expressed through the committee, and it is very reassuring to hear this committee, and I thank you, and I mean that as sincerely as I can.

We are talking about people ending up in the wrong jobs when we start to use RIFs. We do not deal with the real issues. It is disruption. It creates dysfunction in different sections of our agencies, and it becomes, as so poignantly pointed out, the targeting of the wrong people, it is often the young, the females and minorities, the seed corn for our agencies. It is our future that we are going to all too often be putting on the street.

Buyouts are more humane. We should understand that. They are more humane, and they save money. If you will, it is moral; it is profitable. It does not happen often. Why don't we jump at it?

Thank you, Mr. Chairman.

[The prepared statement of Mr. King follows:]

PREPARED STATEMENT OF JAMES B. KING, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Madam Chair, Mr. Chairman, and members of the subcommittees: I certainly appreciate your providing this opportunity for the executive branch to discuss our workforce restructuring plans and to explain once again why we believe that extension of voluntary separation incentive authority to the entire executive branch is essential.

The President made clear in his State of the Union Address last week that significantly reducing executive branch employment over the next five years is a major goal of his administration, and we are all committed to achieving this goal. The questions are what methods will we use, and what will our remaining workforce look like? While some reductions will be achieved through normal attrition, federal agencies are facing two significant obstacles to this approach:

Budget levels and program shifts require many agencies to achieve much of their reduction in fiscal year 1994 alone, or in the first two years, rather than over the full 5-year period.

Attrition occurs randomly, but more heavily at the lower grades, while reduction at the higher grades is what is needed. We must manage attrition in order to "rightsize."

We also face attrition rates that are historically low, declining from 8.7 per 100 employees in fiscal year 1988 to only 2.9 per 100 employees for the first half of fiscal year 1993. Although our data for fiscal year 1993 is not yet complete, the success of the buyout authority at the Department of Defense (DOD) is expected to raise the attrition rate for the last half of the fiscal year. Early retirement authorizations in the past were very useful tools to increase attrition, yet even they are proving much less effective now. In the past, we could expect perhaps 17 percent of eligible employees to accept early retirement, but now only about five percent do.

It is now clear that in many agencies, or parts of agencies, current rates of attrition will not be sufficient during fiscal year 1994 to enable the agencies to meet their budgets, even with very broad use of early retirement authorizations. This is why the administration has asked Congress to give us the authority to use voluntary separation incentives.

Voluntary separation incentives are already available in much of the government. The Department of Defense, Central Intelligence Agency (CIA), and the legislative branch agencies all can currently use this tool to raise attrition rates, and all have found it very successful and cost-effective. The Defense Department, in the first nine months of using incentives, obtained more than 32,000 voluntary separations. Almost half of those eligible for regular retirement separated voluntarily when offered an incentive, as did almost a third of those eligible only for early retirement when offered an incentive.

I would like to turn to my own agency for a moment, because I think it is a useful illustration of what is at stake in this discussion. We must "rightsize" OPM, not only because of budget constraints, but also because our mission is being redesigned along with the efforts of this administration to reinvent government. We are moving from directing—some would say micromanaging—the personnel programs of Federal agencies to being a more entrepreneurial consultant and partner with Federal agen-

cies. We will retain a leadership role in identifying, facilitating solutions to, and preventing problems in Federal human resources management. But we will need fewer employees, with a different skill mix, to carry out this mission than we have now.

On January 20, 1993, when this administration took office, there were 6,995 employees at OPM. One year later, we have a workforce of 6,750. One year from now, to do our job efficiently and effectively, we should have about 5,966 employees.

The question for OPM, as for most agencies, is how do we "rightsize" our workforce? We can do it in a moral, human, and efficient way through buyouts, or we can do it in a painful, destructive, and wasteful way through reduction in force (RIF). We will not be able to motivate an alienated, fearful workforce to create a government that works better and costs less. We will fail to engage employees enthusiastically in the task of exploring how to work together better if they are worried about losing their jobs. That is the situation you create when you have a RIF.

It is also important to understand the damaging effects of RIF's on the surviving workforce. RIF's destroy our efforts to improve the diversity of the workforce. Those with less seniority and without veteran's preference are more likely to be affected adversely in a RIF, and this is going to hurt women and minority group members disproportionately. Older workers and higher-graded workers are the last to go in a RIF, and this will inevitably create age and skill imbalances in agencies, as the people we've been training for the future are forced out.

This is what we're facing at OPM. If agencies had received authority to offer voluntary separation incentives last fall, we believe we could have achieved the reductions we need largely without RIF's. Even now, it is still essential to us. If we are not able to offer separation incentives soon, we will have to RIF between 570 and 600 OPM employees. We have delayed riffing our workforce as long as possible in hope that Congress would give us the buyout authority. Now we are under tremendous budgetary pressures to act.

Since the first day I came to OPM, I have always urged my employees to keep foremost in their minds the impact of their work and their behavior on real people's lives. I am making the same plea to you today. Each day that passes without authority to offer buyouts reduces the ability of Federal managers to accomplish necessary workforce reductions in a humane, cost-effective way. At OPM, we will soon have to conduct a RIF with the minimal amount of notice permitted by law. How can we expect an employee, in today's extremely competitive labor market, to find another job in 60 days? This is the position in which we are placing our employees. It is no exaggeration to say that every moment of inaction on this issue continues to increase the number of Federal employees that will be put out on the street. The RIF's that will start soon will be very painful to real people and will poison the environment in which we must challenge Federal managers and employees to work in unprecedented partnership to serve America better.

Thank you. I would be pleased to respond to any questions you may have.

Mr. McCLOSKEY. Thank you very much, Mr. King.

Now I will take Mr. King's suggestion and move from our left to right. So Ms. Kunin, welcome, and I appreciate hearing your testimony.

I might say all formal statements are accepted for the record, and if you want to highlight and prioritize, I am sure that will work out very well.

Ms. KUNIN. Thank you very much, Mr. Chairman and Co-Chairperson and Vice Chairperson for this committee. It is a real pleasure and opportunity to testify before you this morning on this very important issue formerly called voluntary separation incentive.

As you know, the national performance review has strongly recommended the streamlining of government and more efficiency and effectiveness, and the Department of Education is going through its own review, as is every department and agency in the federal government, and this is truly a new day both for the federal government and for the individual departments, particularly the Department of Education.

We are very strongly supportive of this legislation for a number of reasons, and our case is somewhat different than some of the other departments. We are different in that, one, we have a very

low attrition rate. The average for the federal government is 4.2 percent in the last year. In the Department of Education it is one percent.

Two, we have already in recent years vastly reduced our work force. In the period from 1981 to 1986, a move from about 6,883 employees to 4,527.

And, thirdly and perhaps most importantly is the fact that we have many new responsibilities given to us by the President and this Congress to carry out, and those responsibilities include the total overhaul of student financial aid and direct lending, plus Goals 2000, which is about to be debated in the other body, school-to-work legislation, and the reauthorization of the Elementary and Second Education Act.

That means a total of several major changes in our mission, in our work force, in our responsibilities. We are fortunate that when we presented our plan to OMB, they took into consideration these factors, and we, in fact, have received a waiver for the years 1994 and 1995 from the reduction, and we will have a net increase of 128 FTEs, while we are reducing our employees in every place except student financial aid. So we are shifting to the student financial aid area, where we have a major new piece of legislation to implement.

You may ask if we have a net increase why are we worried. We are worried because we need absolutely the flexibility to bring on the right people with the right skills to carry out these responsibilities, and the buyout program will give us a critical tool in order to do this.

We did have a survey of the eligible employees for retirement. That is about 1,400. About 30 percent, 636, 30 percent of our work force would be eligible for retirement, which in itself is a high figure, but 636 of the 1,400 indicated that they would either definitely or very likely take advantage of the buyout program.

They are largely in the managerial area, which is most appropriate.

Mr. McCloskey. Ms. Kunin, I am sorry for the interruption. Could you state those numbers again? I want to make sure I get them.

Ms. Kunin. Thirty percent of the total labor force in the Department of Education would be eligible for retirement. We surveyed those, and 636 out of 1,400 said they would be very likely or definitely take the early buyout program.

We would probably rehire about half of those, which is what the bill would allow, but even with that half, we would enjoy a substantial savings, as has just been very clearly stated, and equally important, we would be able to hire the kind of new skill people that we very much need.

Even though we are exempted for 1994 and 1995, we would not be exempted down the road and would have to make substantial cuts in the outgoing years.

The Department of Education is one of those departments that has experienced what RIFs feel like, and the people in the department who have experienced them have very bad memories of that time where, in fact, you go through a very lengthy process.

One indicator was that seven people finally left, but 200 people's jobs were changed because of the bumping process and because they were affected, and you end up basically with exactly what you do not want: the wrong people in the wrong jobs, which leads to greater inefficiency.

As has been mentioned, the diversity factor is something you also lose. Department of Education was recently described as the most diverse department in the federal government. We have a very high ratio of women, 60 percent; of minorities, 38 percent; and we are model in many ways of what the federal government should look like.

With RIFs, obviously that would become distorted, and the first people out would be the most recent in, who have built up the diversity mixture that we now have.

We are taking other steps, as I know every department is and as you heard from the secretaries this morning, the strategic planning, with the streamlining plan, and time does not permit me to go into all of those details. Some of it is in the formal testimony, which I would like to submit for the record.

But in conclusion, this is a very important tool to make government work more effectively, to really respond to what the American people expect of their government in terms of effectiveness, efficiency, and responsiveness, and having talented, motivated people doing the business of government.

We are very excited about all the new enthusiasm about reinvention, rededication, but to do it well, we need the tools, and this is one essential tool to make that possible.

Thank you very much, Mr. Chairman.

[The prepared statement of Ms. Kunin follows:]

PREPARED STATEMENT OF MADELEINE KUNIN, DEPUTY SECRETARY, DEPARTMENT OF EDUCATION

Thank you for the opportunity to testify in support of the President's voluntary separation incentives legislation. We believe this legislation would be a powerful tool for streamlining our staff at the Department of Education. Without this measure, it will be more difficult to retain and recruit individuals with the right mix of skills to carry out our education reform initiatives.

The Department of Education has a full plate of responsibilities. The number of programs we manage has grown by 60 percent, from 150 to 240, since 1985, while staff has remained relatively constant. On top of that, when Congress passed the Student Loan Reform Act of 1933—which created the new Direct Loan program—it required us to continue the old system of guaranteed student loans. We also are proposing a series of legislative initiatives, including Goals 2000, School-to-Work, and the reauthorization of the Elementary and Secondary Education Act.

The Department currently has about 5,000 employees, so a 12 percent reduction means that we will have to carry out our existing responsibilities and meet new challenges with 600 fewer staff. Attrition in the Department has been running at less than one percent annually for the last several years, meaning that it would take 12 years to reach the goal that we now must reach in just five years. And based on the level of excitement within the Department over our programmatic initiatives, as well as our commitment to improved morale and management, I do not foresee a sharp increase in our attrition without some stimulus.

We believe that providing an incentive for voluntary retirement would be very effective in increasing the Department's attrition rate. Almost 30 percent of our employees are eligible to retire, either voluntarily with full benefits or early with reduced benefits. As part of our planning, last September we conducted a survey of the 1,400 employees who would qualify for this incentive. Of the 1,400 who are eligible, 636 said that if the incentive were offered, they either would definitely take or would be likely to take the incentive to retire by March 31 of this year. Roughly

half of the interested respondents said they were definite and the other half were probable.

The survey also showed that managers were more likely to take the incentive than non-managers. We had greater interest in our regional offices than in headquarters. We also had a high percentage of eligible employees in the offices with programs that are proposed for termination.

In sum, we believe the voluntary retirement incentive would help us meet our 12 percent or 600 FTE reduction target without adversely affecting employees, and in a manner that would contribute to the other goals of our Streamlining Plan, such as the elimination of unnecessary programs and the consolidation of functions.

Let me note, however, that while the number of individuals expected to take the incentive is very close to our reduction target, this legislation is not merely a "magic bullet" for the Department. We would, in fact, have to replace half of the retiring employees, so while the incentive program would get us much closer to our target, it would not by itself satisfy our reduction goal.

And incentive legislation will undoubtedly lead to the loss of many experienced and talented employees at a time when, as I mentioned earlier, we are taking on many new programmatic responsibilities. This loss would be partly offset by the replacement hiring, which would focus on obtaining new staff with the skills and experience needed to meet our current challenges, such as the demand for financial management skills in the student loan programs. Nevertheless, given the current budget realities, I would rather let older employees go now on their own terms than be forced in a few years to put many of them through the often painful adjustments that accompany Reduction-In-Force (RIF) measures.

Their years of service may allow older employees to hang on during a RIF, but after the bumping process many will not be placed in jobs compatible with their skills. That was our experience during the 1980s, when several RIFs disrupted work not just for the employees who lost jobs, but also for those employees who were displaced or feared possible removal.

And of course one of the most damaging aspects of any RIF would be the likely loss of many of our best young employees. They have helped to make the Department of Education one of the most diverse departments in the government, according to a Washington Post article last month. We are proud of that diversity, and the voluntary separation incentive legislation will help us maintain and even add to that diversity as we learn to work smarter with fewer employees.

Increasing attrition is an important part of overall management planning at the Department of Education. We are currently engaged in two activities intended to help us manage the Department better while contributing to the President's effort to reduce administrative costs and staff levels. The first is a strategic planning process that will outline our internal goals and provide cohesive guidance for management actions. We expect to complete our Strategic Plan during the coming weeks.

The second activity flows from the Streamlining Plan we developed last fall. This plan shows how the Department will contribute to the reduction of 252,000 employees (12 percent of the Government's total staffing) through 1999, and includes the following measures that are consistent with the recommendations of the Vice-President's National Performance Review:

Eliminating or consolidating programs or functions that duplicate each other, have fulfilled their purpose, or that can be done better in other ways.

Retraining and reallocating existing staff to the highest priorities.

Increasing the number of staff with the financial management skills needed to implement the Direct Loan program while phasing out the old guaranteed student loan program and improving the management of Pell Grants and other student aid programs.

Each of these measures would be facilitated by voluntary separation incentives, which would afford Department managers greater flexibility in making the personnel and organizational changes needed to create a high-performance, customer-focused agency.

I hope the Congress will give us this much-needed tool for our management reform efforts. I will be happy to take any questions you may have.

Mr. McCLOSKEY. Thank you, Ms. Kunin.

Secretary Broadnax, representing Health and Human Services, welcome, sir.

Mr. BROADNAX. Thank you, Mr. Chairman, Madam Chair.

My written remarks are very short, and as I have been listening, I think that if I try to summarize I could probably end up expand-

ing the written remarks by as much as 100 percent. So why don't I just read the written remarks?

Mr. McCLOSKEY. Without objection, will you please proceed?

Mr. BROADNAX. I am pleased to be here today to discuss our views on voluntary separation and restructuring of the federal work force. As the Deputy Secretary and chief operating officer of our department, Secretary Shalala has charged me with guiding the HHS continuous improvement program.

I am also responsible for the streamlining effort in our department, and I would like to explain today why voluntary separation incentives or buyouts would be absolutely vital to the overall success of both the continuous improvement program and our streamlining processes.

Let me begin by stressing the importance of streamlining in our department. HHS has undertaken a strategic and comprehensive approach to organizational streamlining that is guided by the activities of our continuous improvement program. The improvement effort is built on Secretary Shalala's four themes: preventing future problems, fostering independence through empowering the people we serve, improving services to our customers, and bringing the department into the next century through modern management techniques.

This is not simply reducing employment and expenditures. In the broader context posed by the national performance review, we believe streamlining will make government work better and cost less.

To make HHS work better, we must make major changes in the way we develop, structure, staff, and deliver services, services that affect virtually every America. To do our work, we depend, first and foremost, on our human resources.

Because our streamlining effort will directly affect all of our employees, how we go about it is just as important as what we do. Cut-and-slash tactics will neither engage nor empower our employees, and the results will not benefit the public that depends on our staff.

Buyouts, which will enable us to streamline as a good employer should, are essential to how we go about it. One point that cannot be overstated is that given the annual budget cycle of the federal agencies, buyouts will be most affordable and, therefore, of greatest value when offered early in the fiscal year.

As you are aware, in our employ we have over 125,000 people located in over 1,000 offices nationwide, carrying out over 250 programs. They possess a remarkably wide range of skills, ranging from research science to claims examining to grants management. Our normal attrition rates vary considerably, but among these diverse occupations and over time while we may be able to meet our overall number targets through attrition, we know that we will be left with a work force whose skill mix will not meet the needs of our programs and customers.

Normal attrition is a random selector. Aside from skill mix, we also want to improve the diversity of our work force, and we want to comply with other areas of emphasis and improve supervisory staff ratio and significant reductions in certain control occupations, particularly in such areas as personnel, budget, procurement, and so forth.

Again, normal attrition alone will not achieve those targets. For example, when we looked at the hard data in Health and Human Services, we found a clear logjam in attrition among our management corps. For both Fiscal Year 1992 and 1993, our nonsupervisors separated at a rate three times greater than their bosses. In the same two-year period, we found our program employees, those doing research, providing benefits, assisting grantees, leaving twice as fast as those performing control work, and in the control fields, the specialists and analysts are leaving twice as fast as their supervisors.

There are, of course, some other tools that will help. These include restructuring, retraining, and reduction in force.

Restructuring will aid in carrying out our mission in new and better ways with less people, but it does not by itself increase attrition.

Retraining will be valuable both because it offers people already on board the opportunity to continue their careers, and because it will help us meet service demands with people already committed to HHS.

Retraining will also help to insure that the work force remaining with us has the skill mix that I alluded to earlier.

Reduction in force procedures will have very limited value for us. They are neither employee friendly, nor effective for the results we are seeking. I would like to elaborate on the reasons why I believe this.

Reduction in force, or RIF, is an involuntary process. Even if an agency is not going to use RIF to actually terminate employees, using these procedures to remove them to other positions is involuntary. The mere threat of a RIF is very disruptive to morale and ongoing front-line operations.

Because the RIF process is extremely complex and has been designed to protect employee rights, it cannot be easily targeted to particular groups. For example, if supervisory positions are to be eliminated, supervisors occupying those positions will probably have the right to displace junior nonsupervisory employees.

Our experience has shown that on the average for every position abolished three employees are affected either by reassignment, demotion or separation.

RIFs are also very expensive. Employees who are separated receive severance pay if they are not eligible for retirement, and they also are entitled to unemployment compensation. Agencies must bear these costs.

Employees who are demoted receive grade retention for two years and indefinite pay retention. Thus, we have to pay employees for work they are not performing.

And, finally, because the RIF process emphasizes veterans' preference and seniority, it can have an adverse impact on women, minority employees, and younger workers. The gains we have made through affirmative employment programs could be wiped away in one RIF.

With this background in mind, let me turn to our plans for using buyouts and why they are essential to the objectives we seek.

We plan to use buyouts to accelerate attrition in the groups specifically cited for reduction in our streamlining plan. These include

managers, supervisors, and employees in control positions. Manager and supervisor positions will be reduced to improve our supervisory ratio. Also, the earlier as opposed to later departure of managers and supervisors hastens the structuring of flatter organizations and empowers employees.

We currently have 1,600 civilian supervisors and managers on board. Of these, 13 percent are eligible for retirement now, and an additional 28 percent are eligible under early-out rules. Remember not all FTEs are created equal. The dollar cost of a single FTE can range from around $10,000 to well over $100,000. Consequently, reductions among the higher paid group are particularly cost effective.

Control positions include acquisition specialist, budgeteers, personnelists, accountants, and auditors. Over 6,600 nonsupervisory staff that we have in these occupations, 7,000 are retirement eligible now, and another 18 percent are eligible for early out.

We need to increase the attrition rates among control positions because, as we simplify and decentralize their work system,s most of their work will simply disappear. When combined, 37 percent of our employees in managerial and control positions are in our retirement eligibility pool for buyouts. This is 6.5 percent of the HHS civilian employment total.

We will also target buyouts for groups of employees whose skills may no longer meet our program needs as we reengineer and automate our ongoing work processes, and as we refocus in order to implement our emerging priorities in areas such as health care reform.

In these situations buyouts are essential to minimize the impact both on work force and on customer service. One of the objections that has been raised concerning buyouts is that they will likely go to people who will leave anyway. This is probably true, but the timing of their leaving is very important to our overall streamlining effort. The sooner they leave voluntarily with dignity and with thanks for a job well done, the sooner we can realize the FTE and dollar savings that will lead to a new generation of better services at less cost.

Moreover, it is one of the few tools available that targets employee streamlining in a humane way. We need Congress to act now on this bill. As you are aware, many federal employees are currently eligible for early or regular retirement, are waiting, reducing normal attrition, and putting us further behind in meeting our streamlining goals.

I cannot emphasize enough that buyouts make good sense for us, both as caring employers and as responsible government leaders. They also make good sense for the maintenance of quality service at the counter in the social security office, in the laboratory at the National Institutes of Health, and on behalf of a Medicare beneficiary.

This is potentially a time of positive change, but we must be strategic, and the buyout authority for HHS is a critically important tool in our arsenal.

Thank you, Mr. Chairman, Madam Chair, for this opportunity to appear here today, and I will be pleased to take questions later.

[The prepared statement of Mr. Broadnax follows:]

PREPARED STATEMENT OF WALTER BROADNAX, DEPUTY SECRETARY, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Madam Chair, Mr. Chairman, and Members of the Subcommittees: I am pleased to be here today to discuss our views on voluntary separation and restructuring of the Federal workforce.

As Deputy Secretary and Chief Operating Officer of Health and Human Services, Secretary Shalala has charged me with guiding the HHS Continuous Improvement Program. I'm also in charge of the streamlining effort. And, I'm here to explain why Voluntary Separation Incentives, or buyouts, will be absolutely vital to the overall success of both the Continuous Improvement Program and our streamlining processes.

Let me begin by stressing the importance of streamlining in our Department. HHS has underaken a strategic and comprehensive approach to organizational streamlining that is guided by the activities of our Continuous Improvement Program. The improvement effort is built on Secretary Shalala's four themes: preventing future problems; fostering independence through empowering the people we serve; improving services to our customers; and bringing the Department into the next century through modern management techniques. This is not simply reducing employment and expenditures. In the broader context posed by the National Performance Review we believe streamlining will make government work better and cost less.

To make HHS "work better," we must make major changes in the way we develop, structure staff, and deliver services—services that affect virtually every American. To do our work we depend—first and foremost—on our human resources. Because our streamlining effort will directly affect all of our employees, how we go about it is just as important as what we do. Cut and slash tactics will neither engage nor empower our employees—and the results will not benefit the public that depends on our staff. Buyouts, which will enable us to streamline as a good employer should, are essential to how we go about it. One point that cannot be overstated is that given the annual budget cycle of Federal agencies, buyouts will be most affordable and therefore of greatest value when offered early in the fiscal year.

As you are aware, in our employ, we have over 125,000 people located in over 1,000 offices nationwide, carrying out over 250 programs. They possess a remarkably wide range of skills, ranging from research science, to claims examining, to grants management.

Our normal attrition rates vary considerably, both among these diverse occupations and over time. While we may be able to meet our overall number targets through normal attrition, we know that we will be left with a wofkforce whose skill mix will not meet the needs of our programs and customers. Normal attrition is a random selector. Aside from skill mix, we also want to improve the diversity of our workforce. And, we want to comply with other areas of emphasis—an improved supervisory-staff ratio and significant reductions in certain "control" occupations e.g. personnel, budget, etc. Again, normal attrituion alone will not achieve those targets. For example, when we looked at the hard data in Health and Human Services, we found a clear log jam in attrition among our management corps. For both fiscal year 1992 and 1993 our nonsupervisors separated at a rate three times greater than their bosses. In the same two year period we found our program employees—those doing research, providing benefits, assisting grantees—leaving twice as fast as those performing "control" work; and in the "control" fields the specialists and analysts are leaving twice as fast as their supervisors.

There are, of course, some other tools that will help. These include restructuring, retraining, and reduction-in-force.

Restructuring will aid in carrying out our mission in new and better ways with less people, but it doesn't by itself increase attrition.

Retraining will be valuable, both because it offers people already on board the opportunity to continue their careers, and because it will help us meet service demands with people already committed to HHS. Retraining will also help to ensure that the workforce remaining with us has the skill mix that I alluded to earlier.

Reduction-in-force procedures will have very limited value for us. They are neither employee-friendly nor effective for the results we are seeking. I'd like to elaborate on the reason why I believe this.

Reduction in force, or RIF, is an involuntary process. Even if an agency is not going to use RIF to actually terminate employees, using these procedures to move them to other positions is involuntary. The mere threat of a RIF is very disruptive to morale and on-going front-line operations.

Because the RIF process is extremely complex, and has been designed to protect employee rights, it cannot be easily targeted to particular groups. For example, if supervisory positions are to be eliminated, supervisors occupying those positions will probably have the right to displace junior non-supervisory employees.

Our experience has shown that, on the average, for every position abolished three employees are affected either by reassignment, demotion, or separation.

RIFs are also very expensive. Employees who are separated receive severance pay if they are not eligible for retirement; and, they are also entitled to unemployment compensation. Agencies must bear these costs. Employees who are demoted receive grade retention for two years and indefinite pay retention. Thus, we have to pay employees for work they are not performing.

And finally, because the RIF process emphasizes veterans preference and seniority, it can have an adverse impact on women, minority employees, and younger workers. The gains we have made through affirmative employment programs could be wiped away in one RIF.

With this background in mind, let me turn to our plans for using buyouts and why they are essential to the objectives we seek.

We plan to use buyouts to accelerate attrition in the groups specifically cited for reduction in our streamlining plan. These include managers/supervisors and employees in "control" positions.

Manager and supervisor positions will be reduced to improve our supervisory ratio. Also, the earlier—as opposed to later—departure of managers and supervisors hastens the structuring of flatter organizations and empowers employees.

We currently have some 16,000 civilian supervisors and managers on board. Of these, 13 percent are eligible for retirement now and an additional 28 percent are eligible under early-out rules.

Remember that not all FTEs are created equal. The dollar cost of a single FTE can range from around $10,000 to well over $100,000. Consequently, reductions among this higher paid group are particularly cost effective.

"Control positions" include acquisition specialists, budgeteers, personnelists, accountants and auditors.

Of over 6,600 non-supervisory staff that we have in these occupations, 7 percent are retirement-eligible now and another 18 percent are eligible for early-out.

We need to increase the attrition rates among control positions because, as we simplify and decentralize their work systems, much of their work will simply disappear.

When combined, 37 percent of our employees in managerial and control positions are in our retirement eligibility pool for buyouts. This is 6.5 percent of the HHS civilian employment total.

We will also target buyouts for groups of employees whose skills may no longer meet our program needs as we reengineer and automate our on-going work processes, and as we refocus in order to implement our emerging priorities in areas such as health care reform. In these situations, buyouts are essential to minimize the impact both on workforce and on customer service.

One of the objections that has been raised concerning buyouts is that they will likely go to people who will leave anyway. This is probably true, but the timing of their leaving is very important to our overall streamlining effort. The sooner they leave—voluntarily—with dignity, and with thanks for a job well done—the sooner we can realize the FTE and dollar savings that will lead to a new generation of better services at less cost. Moreover, it is one of the few tools available that targets employee streamlining in a humane way.

We need Congress to act on this bill now. As you are aware, many Federal employees who are currently eligible for early or regular retirement are waiting, reducing normal attrition and putting us further behind in meeting our streamlining goals.

I cannot emphasize enough that buyouts make good sense for us—both as caring employers and as responsible government leaders. They also make good sense for the maintenance of quality service—at the counter in a Social Security office, in the laboratory at the National Institutes of Health, and on behalf of a Medicare beneficiary. This is potentially a time of positive change, but we must be strategic and the buyout authority for HHS is a critically important tool in our arsenal.

Thank you for the opportunity to appear here today. I'd pleased to take any questions.

Mr. McCLOSKEY. Thank you, Mr. Broadnax.

Now Roger Johnson, Administrator of the General Services Administration. Welcome, Mr. Johnson.

Mr. JOHNSON. Thank you, Chairman McCloskey and Chairman Norton. If I might enter my remarks in the interest of time, I'd like just to make a few comments for focus, based on my own background, having reinvented, restructured my former company about three times in the past ten years. I'll also mention a couple of specifics in this agency, and then maybe talk a little bit for a moment about more general aspects.

Mr. MCCLOSKEY. Please proceed.

Mr. JOHNSON. I agree with most everything that has been said, but focusing on the numbers, in my experience may well miss the main issue. The end objective is not to reduce people. The end objective is to change the way we manage the government.

Not having the tools to deal with the people affects those changes, in fact, stops you at the very beginning from doing some of the creative thinking to change the process. So people leaving their jobs is the unfortunate result of making basic process changes, and I think we need to keep that in mind.

For example, in this agency, our total salaries are approximately $3 billion. Now, the kinds of costs and expenses those people control, however, and are responsible for, are $58 billion. The leverage is in managing the 58 billion better, not cutting the 3 billion.

Now, to do that, starting six months ago, we went back and reviewed everything GSA does, how we do it, why we do it, and asked the challenging question: What can we do to change and make GSA better? In almost every case, in order to make the kind of improvements we want, we will need to either eliminate positions because they are redundant or we will need to combine positions to do it more effectively. We need to completely change the character of certain organizations which historically have been in the business of transactions, and convert them to the business of managing and analyzing, a completely different set of skills.

Without tools to get at that structural change, we could not even start. We estimate that the resulting reduction in manpower will be 15 to 20 percent of the agency over five years. That was not the number that we started with. That is the number that resulted from what the management of the agency said would occur if we could make these basic changes.

But the leverage here is in the process, not in the people. In a broader sense, the national performance review, I think, is the road map for fundamental change in process of the government. We need to change the process dramatically.

We could lay off everyone in the government and not come close to touching the deficit. The deficit reduction and putting us back in a sound fiscal sense takes changing all processes. All we are looking for here is a few of the tools that I am used to having as a manager of a business.

American industry has redone itself at least two times in the past ten years, and the industry I came from, the technology business, is now back leading the nation, leading the world in technology. We do not have to hold a second candle to Japan or anyone else.

That was done not by laying off people, but by changing how we worked, and the result, of course, is the economy is growing again. The companies are doing well, and people are back in other jobs.

Another final point is that the people that happen to be affected by changing process are certainly not bad people. My experience in coming from the private sector is quite the contrary. The federal worker, in the main, is a good person, a smart person, knows what to do and wants to do what is right. He or she has just got a whole bunch of processes in the way of them doing what they know is right in the first place.

Therefore, the people that are going to be affected here are not bad people. They just happen to be in jobs, positions, or organizations that are not necessary to continue for the future. We need to provide as best we can job planning for them.

I would urge that we keep the focus on the process change, keep the focus on the leverage that will come from that, and just give us tools, which I think, although it is not in this particular bill, need to be looked on in perpetuity. The process of changing is never ending. It will not stop with this session of Congress; it will not stop with this bill. The management in the government needs tools on an ongoing basis to be able to operate efficiently as things change in the future.

Finally, from a political standpoint, you asked the question. In my own case, I have appointed only about half of the political jobs for the same reason. We just did not need them. I have had some interesting discussions about that, Mr. Chairman, but that is the fact at the moment.

So I urge us to look at this in a broader sense, not just people, but unfortunately people are affected, and give us a way to make those landings soft.

Thank you.

[The prepared statement of Mr. Johnson follows:]

PREPARED STATEMENT OF ROGER JOHNSON, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

Chairpersons McCloskey and Norton, Vice Chairpersons Burton and Morella and members of the Subcommittees, it is my pleasure to be here today in support of H.R. 3345, the "Federal Work Force Restructuring Act of 1993." I will testify that the US General Services Administration needs separation incentives. We need them, not because we cannot reduce agency staffing levels without them, but because we cannot restructure and reorganize the agency to meet the business challenges we face without them.

All through my years in executive positions in industry and most recently as Chairman and Chief Executive Officer of Western Digital, I have always had a variety of tools such as buyouts available to help both management and employees restructure their jobs, realign their operations to meet rapidly changing markets, technologies, and competitive environments. Without such tools, American industry could not have survived. Government management and employees should have no less.

Seventy nine Fortune 100 companies have offered their employees separation incentives, including corporate giants like General Motors and IBM. The private sector sees buy-outs as an important part of achieving streamlining in a positive way. Indeed, most private sector separation incentive packages are more generous than what the Administration have proposed.

As you know, the President has committed to reduce federal employment by 252,000 over the next five years. I am ready to help meet that goal. My plans for restructuring GSA will reduce employment by 17.2 percent. To achieve that goal, I already have frozen hiring at GSA for several months. But a hiring freeze alone will not position GSA to meet the needs of the Federal community. To do that we need to make targeted cuts. Attrition by itself is fine, but does not get to the issue of specialization and quality.

Over the past several months, managers and employees, as well as union officials, in every component of the agency have been looking at what we do, why we do it,

and how we do it. We have been guided in this process by the Vice President's National Performance Review, by the collective experience of GSA's employees, and by the needs of our customers. We will soon be ready to restructure the agency so we can begin to deliver the right services in the right ways. In the words of NPR; to structure an agency that works better and costs less.

The 17.2 percent staffing reductions that I am planning will not be applied uniformly throughout GSA. Instead, many of them will be targeted toward categories identified in the national Performance Review—managers, supervisors, personnel specialists, and other "overhead" occupations. Others were designed to enable us to alter our business lines to meet changing needs, and to change the skill mixes of employees in continuing business lines. Our plans do not anticipate spreading the cuts evenly over the five years the President has set aside for overall reductions. I believe GSA needs to move quickly to make our proposed changes if we are to deliver the services that are needed and to remain competitive.

I thought earlier that it might be necessary to RIF employees at GSA to position ourselves where we need to be. But I have concluded that RIF will not work for us. It is simply too gross and unpredictable a tool. A RIF will leave us with a demoralized organization with the wrong people in the wrong positions. We've done it before at GSA. We conducted a major reduction in force in 1982. In our headquarters, we abolished some 300 positions, and although only 120 employees were separated through RIF procedures, over 1,200 employees—25 percent of the population—were affected by separation, downgrade, or reassignment. The RIF was enormously expensive (estimated at over $35,000 per separation in today's dollars), and had a major impact on employees, their families, and the ability of the agency to accomplish its mission. And the employees who were separated were in lower grades and disproportionately minorities and women.

Early out retirement offers will help us get down, but not enough to make a difference. To illustrate, our Federal Supply Service (FSS) has been in a hiring freeze for almost a year and has offered early out retirements in headquarters and other mid Atlantic locations since mid summer, 1993. Through the first quarter of FY 1994, FSS has reduced 5½ percent from its FY 1992 base employment level. During that same period, the number of high level management and staff positions in headquarters dropped by only five, or 3.9 percent, and there were no losses in other locations. To reach the more streamlined organization that our business requirements demand, FSS needs to cut at least 50 of these positions. Experience at other agencies demonstrates that with separation incentives we can move much more rapidly toward the reductions we need. Experience also shows that separation incentives are considerably more cost effective than RIF's.

Separation incentives would also help in areas of GSA where business needs call for us to discontinue functions, or dramatically change skill mixes. Two examples may help to illustrate this. Our Public Buildings Service is considering the elimination of some 350 custodial work inspection positions, switching to tenant evaluations to monitor performance. Because these are low grade jobs we could RIF the employees without a major impact on other parts of the organization. But a RIF would drastically impact these men and women and their families, most of whom are minority group members. We believe separation incentives offer a better alternative. Many of these workers are older and would qualify for early or optional retirement. So we could make significant reductions directly through incentive offers. We would also broaden the separation incentive offers, opening up positions in related fields not targeted for reduction where we could employ the displaced inspectors. We believe this same approach to separation incentives will be of immense help in opening up positions for displaced supervisors at other levels of the organization.

Another example comes from our Information Resources Service. Here many employees are highly skilled in computer main frame technology, while the Government's information needs have shifted dramatically to emerging technologies that demand different skills such as local area network management, electronic commerce, and systems integration. Attrition alone will not allow IRMS to change this skill mix, nor will retraining alone develop the skills needed to address these needs in the time frames required. Here again, separation incentives can help us open up these positions in the least disruptive way.

It is critical that this bill be enacted quickly. With each passing month, it becomes more difficult to offer separation incentives because agencies generally need to be able to recover the costs through savings in salaries not paid. It is important to note, however, that GSA and other agencies anticipate making our most extensive cuts at the highest levels where the cost of separation incentives is low relative to salary. In most locations we still have time to offer incentives to high graded employees if we can act soon. Additionally, the funding structures of some components of GSA (e.g., the FSS Industrial Fund) will permit losses due to incentives this year

to be recouped next year. Such organizations could proceed quickly with incentives wherever needed. Incentives for some other groups would need to be postponed until the beginning of the next fiscal year to insure that we could recover the costs.

As I said earlier, I have been surprised that the question of separation incentives is even an issue in the Federal Government. When I first learned of the problem on coming to GSA, I remarked to my staff, that when we downsized in the private sector there was no question about incentives. We offered significantly greater incentives than those contemplated in this bill. Not because we needed them to avoid the disruption of a RIF which wouldn't be nearly so significant in a typical private sector organization, but because its the right thing to do from a business perspective. The employees that remain in the organization need to understand that when change occurs, we will accomplish that change with the least adverse impact on employees and families that prudent business dictates permit. Otherwise the people we need the most can and will go elsewhere.

Mr. McCloskey. Thank you, Mr. Johnson.

Mr. Gober.

Mr. Gober. Thank you, Mr. Chairman, Madam Chair.

I would like to enter my formal statement into the record, if it may be permissible.

Mr. McCloskey. It is accepted for the record.

Mr. Gober. And I will make just a few brief remarks.

The VA strongly supports the legislation to provide the tools in order to achieve the rightsizing effort with a minimum of disruption to our employees, and for all of the reasons that have been so eloquently stated this morning.

As I sat here listening to Jim King, and I am from Arkansas and I am a Southern Baptist, all I want to do is say, "Amen." And I felt like when I heard Madam Chair and you, Mr. Chairman, make your statements, you have said it exactly like we have all been sitting here saying this morning, and what I find so good about this is that we have people in the administration and on the Hill that are thinking the same way, and think that we have to treat our federal employees, who have done a good job, with respect and dignity, and the buyout is one way of doing that.

VA has many current rightsizing initiatives going on at this time. We are closing supply depots because we can buy the materials cheaper and faster. We are restructuring our construction management effort in the central office. Obviously we are not building as much. We do not need as many people to be in the construction effort.

We are restructuring the way we run our health administration in the field at the regional level, and we are eliminating positions, and we do every one of these restructuring efforts, as was said here earlier by Roger, not because we want to get rid of people, but because we think we can do what the President wants to do and still accomplish our mission.

The majority of our reductions will come from the serious reexamination of our structure throughout the VA and with an eye towards many of the principles outlined in the national performance review. Headquarters size, central control function, excessive management layers, and redundant responsibilities and span of control.

We are also taking a serious look at consolidation of administration and operational functions in the field. In short, any function that does not directly touch a veteran will be looked at.

We want to free up our line employees from excessive control and review and eliminate functions that have no use in serving veterans.

To accomplish these changes, we need every tool we can get, and the buyout is one of those tools, and we do not need it just for this year, but we would like to have it continuing on so we could do it in the first part of 1995.

The use of early retirement authority is increasingly ineffective and unpopular to employees. Less than five percent of those eligible can now be expected to opt for early retirement when it is offered without voluntary incentives.

Based on the Department of Defense experience with buyouts, we assume that over 20 percent of our employees eligible for discontinued service retirement and 42 percent of employees eligible for optimal retirement will accept buyouts. That equates to about 40,000 eligible, and it could be if the figures hold true about 12,000 people who would be eligible and would accept it.

And I cannot emphasize Secretary Brown's feeling on this enough. Reduction in force is an effective means of down-sizing, but buyouts is a better tool. VA has a very dedicated, hard working force of employees, and we think that they deserve the consideration of the buyout.

For all of the other reasons stated, we do not like the RIF. Everything that has been said here, I would just like to say "amen" to it.

[The prepared statement of Mr. Gober follows:]

PREPARED STATEMENT OF HERSHEL GOBER, DEPUTY SECRETARY, DEPARTMENT OF VETERANS AFFAIRS

Thank you for the opportunity to provide a statement on voluntary separation incentives, and restructuring of the Federal workforce. Like other agencies, the Department of Veterans Affairs (VA) is in the process of rightsizing. We strongly support legislation to provide tools with which to achieve our part of this effort, with a minimum of disruption to our employees.

Currently, we are involved in a number of projects to reduce staff in specific parts of the agency. First, we plan to close our three supply depots by the end of the fiscal year, resulting in the reduction of nearly 300 positions. These closures are a National Performance Review (NPR) initiative and will result in significant savings through direct purchase and delivery of pharmaceuticals and other medical supplies at our medical centers. Second, a restructuring of our construction management program in Central Office will result in a reduction of approximately 50 positions. Third, we are moving to restructure our Veterans Health Administration field structure at the Regional level, which will result in a reduction of approximately 250 positions.

These reductions are only the beginning of our streamlining efforts. We have begun a top to bottom process to reexamine the structure and functions of the entire Department, field and headquarters staff and line, with an eye toward significant change consistent with the principles in National Performance Review. I have tasked an intradepartmental team to develop proposal for the Secretary concerning headquarters structure, management layers, the central control functions, duplicative responsibilities, "pass through" review positions, and span of control. I also want them to take a serious look at our field structure including potential consolidations of administrative and operational functions—both geographically and functionally. This will also include contracting in selected areas where services can be provided in a more cost effective fashion. I expect this review to be completed within the next 60 days which will provide the basis for streamlining decisions over the next five years.

Our intent is to free up our line employees from excessive control and review and to eliminate functions that no longer have a use in serving veterans.

To accomplish these changes and to effect other reductions anticipated in fiscal years 1995–1999, we need voluntary separation incentives. To avoid the use of ad-

verse measures such as reductions-in-force (RIF) or furloughs, we typically employ a variety of voluntary actions to reduce staff. These include the use of early retirement authority. This authority proved to be a good tool when we first began to employ it in 1986; however, it is increasingly unpopular with employees. Less than 5 percent of those eligible can now be expected to opt for early retirement when it is offered without voluntary incentives. In addition, we try to place excess staff in other parts of the Department. However, these opportunities are increasingly more limited because of reduced employee turnover and unwillingness of employees to relocate to accept positions in other areas. The lack of job opportunities in the private sector has also cut normal turnover and reduced the effectiveness of our outplacement efforts.

Without voluntary incentives we may have to resort to reduction-in-force to achieve savings and reduce staff. We appreciate the job-protection given to preference eligible veterans, especially disabled veterans in RIFs; however, when compared with the buyout alternative, reduction-in-force is an ineffective means of downsizing. There are several ways in which buyouts are the better tool:

RIF is expensive, and often costs more than buyouts. For example, separated employees are entitled to severance pay, which often exceeds the buyout limitation of $25,000.

RIF downsizes organizations from the bottom while buyouts encourage those at the top and middle to leave. In other words buyouts target for reduction many of the specific positions identified by NPR.

RIF creates a series of bumping and retreat actions in which a number of employees wind up in jobs that they are not well suited for. Because of retained grade and pay provisions, such downgraded employees are often over-compensated for the work they are required to do. These actions are another cost of using RIF.

RIF impacts more heavily on the lower grade and less senior employees. Minorities and women are strongly represented in these categories and thus are disproportionately affected.

By targeting the higher grade, more senior employees, buyouts are less disruptive to the organization and provide promotional opportunities where positions are retained as essential to the mission.

One last point needs to be made. Like RIF, buyouts have a cost. Given the annual budget cycle of Federal agencies, buyouts will be most affordable and therefore of greatest value when offered early in the fiscal year. Again, thank you for the opportunity to present this statement.

Mr. McCloskey. Thank you very much, Mr. Gober.

Mr. Goldin, it is good to see you. Please proceed as you like.

Mr. Goldin. Mr. Chairman, Madam Chair, Ranking Member Morella, I, too, would like to submit my testimony in full and just make three points so that I do not replicate the wonderful testimony I have heard before me.

We support the National Performance Review. We support efficiency in government, and as Robert Johnson said, what we are striving to do is not eliminate jobs of outstanding people, but to make ourselves more effective, and in the process we eliminate jobs.

NASA is an agency, and this is my first point, that had a RIF. In the 1970's, we had a RIF of 10,000 human beings. Those scars have lasted until today when employees who were involved in the RIF are retiring, and as part of their outgoing discussions tell us how it scarred them. Three people were bumped for every person that was involved in the RIF.

The appellate process took 15 years to go through the courts to settle the claims. This was a terrible, terrible thing for human beings to have to go through. It is not a tool; it is a punishment.

We must have the buyout available to us. I come from industry, as Roger Johnson does, where the buyout works. It is a very human approach to allow human beings to make a choice instead of to be forced. It allows management to have a tool to make the proper selection of jobs for the right human being.

My second point is that a RIF is inappropriate, I would like to give you some background data on figures at NASA. Our historical average on attrition is six percent. As soon as the employees understood a buyout was available, it dropped to under two percent.

Earlier, only 83 people of 4,000 people opted for early out. We had a hiring of 2,000 people in 1991, and in 1993, we were down to under 400 employees that we hired. That is an historical low in hiring in 20 years. So we have tried to respond with all other tools, and it is not adequate to meet the needs for the efficiency upgrades and the down-sizing we have.

So we believe that a buyout is the only way to make it happen. I have talked with the employees. They want to respond to it. There are a lot of employees who have been with the agency and feel that extra $25,000 will help them through the process. They understand that they are going to help the jobs of some of the women and minorities to be retained within the agency.

NASA has for years not been responsive to hiring women and minorities, and we have hired a number of them over the last few years. They would be the first to go out. That is my second point.

The third point is starting last August we had performed considerable planning for a buyout. From the day the Congress passes the legislation, it will take us five weeks to conclude the process. We are ready to move. We need your help. We want to treat our employees fairly and equitably.

Thank you very much.

[The prepared statement of Mr. Goldin follows:]

PREPARED STATEMENT OF DANIEL S. GOLDIN, ADMINISTRATOR, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Mr. Chairman, Madam Chair, and Members of the Committee, I am pleased to be here today in support of legislative authority to conduct a program for voluntary separation incentive payments (VSIP), and appreciate the opportunity to address the Committee on NASA's efforts in utilizing other voluntary means of workforce downsizing.

NASA, like many other Agencies, has been utilizing workforce reduction measures, such as attrition, aided by severe hiring and promotion freezes, for over 2 years to meet budget reductions. However, even these stringent measures have not alleviated the budget and ceiling pressures we face.

As the economy has tightened we have found a significant decrease in our attrition rates, and difficulty in achieving our Fiscal Year 1993 ceiling and budget requirements. Although NASA had experienced annual turnover rates in excess of 1,500 employees during the late 1980's, the job market, economy, and more recent discussions concerning "buyout" authority have dramatically reduced these rates. In Fiscal Year 1993, annual turnover had dropped by 40 percent of the late 1980's levels, and projected turnover rates are even lower for Fiscal Year 1994.

In August 1993, we requested and received early retirement authority from the Office of Personnel Management to further induce voluntary separations. However, of the nearly 4,000 employees eligible for "early out," only 90 employees have taken the option. The annuity reduction for early out, the economy, and discussion of buyout authority have been the overriding reasons that the early out authority has been ineffective to date.

It is critical that NASA obtain buyout authority early in Fiscal Year 1994. The buyout authority would assist NASA in addressing the problems we face of reducing a workforce, cutting costs, redesigning the Space Station program and improving management efficiencies. We will use it to effect workforce reductions beyond the 4 percent called for in Executive Order 12839. These additional reductions are consistent with Fiscal Year 1994 Congressional direction to NASA to reduce the civil service and support contractor workforce assigned to the Space Station by 30 percent.

More specifically, NASA is faced in Fiscal Year 1994 with a Congressional reduction to our Fiscal Year 1994 salary appropriations of $39.5M; Congressional report

direction to achieve an end-of-year ceiling at 1,089 below our final Fiscal Year 1993 FTE level; an increased payroll requirement of $43M due to the impact of locality pay; and, a requirement by Executive Order 12839 to reduce high grade positions (GS–14 and above). Our current means of workforce reduction will not allow us to achieve these directives.

As all other viable options have not satisfied NASA's ceiling and funding problems, only two real portions remain—involuntary separation through the use of reduction in force (RIF) procedures, or voluntary separation as entices without a buyout incentive.

We feel strongly that RIF procedures should be avoided to the maximum extent possible. RIF is costly no only in terms of direct costs such as severance pay entitlements and unemployment compensation, but also in terms of indirect costs such as retraining costs, productivity downtime and morale. Agencies that have engaged in large scale RIFs have found that the younger, newer employees are disproportionately impacted due to RIF retention procedures, leaving higher paid, more senior employees filling lower graded positions. Additionally, due to the increased emphasis in past year on diversity in hiring those individuals affected by RIF regulations are often those minority candidates who have been aggressively recruited.

Once an Agency has undergone a major RIF, healing process must begin. Productivity often hits a record low, primarily due to low morale, displacements and reassignments. At a time when an Agency needs increased productivity based on a small staff size, the opposite effect can be devastating.

The alternative approach, voluntary separation incentives, "buyouts," can have a very positive effect on the workforce. Although employees recognize that the Agency is undergoing a crisis, the fact that the crisis resolution is achieved through a voluntary measure often strengthens the support and morale of the employees. Voluntary workforce reductions tend to involve more senior employees, without the organizational disruption or major effect on diversity. In fact, separations from the top of the structure allow some growth opportunity for lower graded employees in a tight job market, and allow agencies, such as NASA, to achieve its high grade reduction requirements. And finally, the economic implications of buyout authority are favorable not only for the Federal Government, but for the affected employee as well.

In recognition of the unique circumstances that NASA faces, the House Science Committee, in August 1993, reported and brought to the floor H.R. 2876, granting NASA buyout authority. Furthermore, the Senate adopted a similar measure on November 22, 1993. This NASA buyout authority has also been endorsed by the House and Senate Committees on Appropriations as part of the Conference Report accompanying the Fiscal Year 1994 VA-HUD-Independent Agencies appropriations bill.

If NASA is able to obtain this buyout authority, we are prepared to implement it immediately, as further delays in workforce reductions will only exacerbate our funding and ceiling problems. We have developed a strategy that will target buyouts to those NASA installations most affected by ceiling reductions associated with the Space Station redesign. We would like the opportunity to utilize this very positive approach to downsizing.

Mr. Chairman, Madam Chair, it is our hope that the Congress will provide NASA buyout authority, either through H.R. 3345, the Government-wide bill, or H.R. 2876, the NASA bill, in the immediate future, and we seek your support toward this end.

Mr. McCloskey. Thank you very much, Mr. Goldin. I might say I was interested in Mr. Gober's statement, and I think it echoes in other testimony. I guess the emphasis on this at least in many agencies is likely to be, administrative cadres, budgeteers, personnel, analysts and whatnot. The idea at least as Mr. Gober is describing it, we are not going to be cutting personnel that deal directly with the veterans.

And I might say particularly with veterans and Health and Human Services here, two of the agencies that deal every day in the broadest and hopefully the best sense with the American people, I think that ought to be very important.

With Secretary Broadnax here, I would say from time to time I hear in my district statements as to interminable amounts of time as far as social security processing, particularly disability processing, that coming from constituents, and occasionally, Mr. Broadnax, Social Security staff employees.

I mean what can you tell us now about the present state of such concerns, and are we really going to be able to provide efficient services, in the social security disability processing with the cuts that are envisaged?

Mr. BROADNAX. Well, Mr. Chairman, providing quality services in a timely fashion in terms of the disability program is certainly one of our primary objectives, and we are in the process now of trying to move forward as quickly as we can with a major reengineering of the social security disability process within the Social Security Administration.

As we have moved forward with our streamlining plan in the department, we have certainly been cognizant of the needs as related to the disability problem that we have been confronting for the last several years.

Mr. MCCLOSKEY. Could you be a little bit more specific as to what the number is like as far as the claims processing? How much of a backlog do you have? Whatever you could.

Mr. BROADNAX. Well, I do not have the numbers available to me, Mr. Chairman, right now, but I would be happy to make them available to the committee.

Mr. MCCLOSKEY. Okay.

Mr. BROADNAX. I would just simply say that we recognize that the number of days required are far too long. The backlogs that we are experiencing are far too high, and we intend to through engineering and applying appropriate resources begin to really bring that down.

Mr. MCCLOSKEY. Well, I think you basically are saying that my question is on point, and I would respectfully request can you give me a written background and a written commitment as to how that is going to occur, given the dynamics of this process?

Mr. BROADNAX. We would be happy to.

Mr. MCCLOSKEY. Would Mr. Gober have any comments in that regard? Let's hear from Veterans as far as timeliness and processing and certification for admittance to various clinics and hospitals etcetera.

Mr. GOBER. Well, that is a problem because we have a tremendous backlog on the case work. In fact, we are sitting on about 40,000 cases of backlog, and it is caused by several reasons. It is not because our people want to do that, but the judicial review process and a lot of other things have caused it to do that.

When we move through this, Secretary Brown's feeling about this and all of our feeling about this is that we do not want to continue providing the service we are doing now. We want to provide a better service, and as we move forward in health care reform, we have to because we are going to be competing, and we have got people working hard right now to change that whole culture.

You know, we no longer are going to be the place where everybody has to go. The culture has changed. So we are looking at everything we can to make sure that we can process claims fast, that we can give better medical service, and it is going to be difficult, but we are working hard on that.

Mr. MCCLOSKEY. Anything you can do to inform the committee as to how that is going to occur, Mr. Gober, similar to the question I asked Mr. Broadnax, I would really appreciate.

I was interested in Ms. Kunin's opening statement as to expecting one half of the individuals who would take the buyout to be rehired; is that right, by the Department of Education? Do we really mean they are going to be rehired right away? Are they going to be asked to stay behind with the understanding that the budget window will be available to them for VSIP somewhere down the line?

Are we talking about contracting? I think probably I am not the only one that had the reaction. If you would, tell us about that.

Ms. KUNIN. Yes, Mr. Chairman. Half of the positions maybe the more accurate way to say that would be refilled because we would need those kinds of skills as we gear up for direct lending and for student financial aid reform, but it would not necessarily be the same people at all. It would be those FTEs available.

Mr. MCCLOSKEY. I thought I heard you. I need further conversation, but I thought I heard you say that one half of the individuals that take the buyout, the individuals would be rehired.

Ms. KUNIN. Well, that was probably not accurate. The positions would be refilled. It was not your hearing. It was my statement.

Mr. MCCLOSKEY. Any further back-up you could give us on that, we would appreciate it.

Ms. KUNIN. Sure. I would be delighted to do that, but my understanding is that——

Mr. MCCLOSKEY. Isn't there supposed to be a two-year prohibition generally, Jim, on rehiring?

Mr. KING. That is correct, Mr. Chairman, yes.

Mr. MCCLOSKEY. Is that federal system-wide?

Mr. KING. That is Federal system-wide, and if for some reason an agency felt that that person had a critical skill that they needed to bring back in, then they would have to get OPM approval to avoid repayment.

Mr. MCCLOSKEY. Okay.

Mr. KING. There would be no horror stories of, you know, the person went out of six Federal agencies in six months and walked away with a quarter of a million dollars or something. That will not happen.

Mr. MCCLOSKEY. I might say that you are the chair for at least ten minutes.

Ms. NORTON [presiding]. All right, Mr. Chairman.

Following Chairman McCloskey's question in a slightly different way, I ran a federal agency once, in a different century it seems, and throughout that period there were always freezes. I mean we were freezing and unfreezing worse than in Washington in the past few weeks. Some of them were terribly, terribly tight, and I know most of you have been intelligent enough to do as much freezing as possible to make your downsizing easier.

What, I suppose, most of the public really do not believe is this part of the downsizing that says permanent, that there will not be backfilling, that this is a structural reduction in the federal work force. That will be hard for people to believe not only because it defies how government has grown in the past. For example, it grew under the Reagan administration, who detested government, but also because the fact is that the Congress every year adds new programs.

No matter what you say; indeed, Ms. Kunin has spoken about new programs that already are in place or envisioned for her department. I suppose first they go to Mr. King, but then they go to the implementation level.

I want to ask: have you really thought through the notion that this is a permanent reduction, notwithstanding the fact that the Congress is going to expect every agency—we do not sit here on our hands. We come forward with bills that make you do things every year. Have we truly thought through that notion so that we are beyond the slogan of work better and the other Madison Avenue things that get thrown around that nobody watching us on C–SPAN believes?

Sort of explain how it is going to happen, beginning with Mr. King, and then perhaps some of you who may have thought how it applies to your own agency.

Mr. KING. You ask a superb budget question, and I will yield to OMB, the experts on budget, but I would try to address it. Let me just take my own agency, and I think many of us, well, all of us have seen that we face dynamic changes either in approach to the work or the methodology.

In my agency in January of 1993, we had 6,995 people on the payroll. So, if you will, there were about 7,000 people there. In January of this year, now that we are sitting here and it just ended, January, it is 6,750 people. January of next year we are going to have 5,966 people. I think you can see what I am talking about.

Why? Because our agency is redefining itself. It is taking itself out of certain things, putting itself in other things, and we are looking down the line. That means that we have certain positions that very shortly there will not be any work for those people to do.

Can they be retrained? That is one of the hidden things in this package which I know, Madam Chair, you have looked at, namely, the ability to broaden our training so that we can take people right now who may be in stove piped organizations and retrain them for the new jobs.

There will be continuing turnover. The bill before us though, the major bill that we are addressing is: how do we manage that change? How do we develop a work force that is going to be responsive? I think that is what each of us has addressed.

Is there a methodology that reduces the chaos and the personal pain? The answer to that is yes, the discussion on buyouts. I do not see any other way we can do it in that truly coherent fashion.

On the management side, for example, last January our ratio of managers was seven to one or one manager for every seven employees. Before this fiscal year ends, it will be one to 15. We will change it. We are moving. We are already finished in the planning stage of de-layering in the first round, and we will be making those announcements in the next few months.

With the combination of de-layering, and that is a tool also, and buyouts and early outs and all of the other kinds of things available to us, what we want to avoid by all means is the RIF. It is the inability to manage the change that we all address, and we are all looking for a different way out.

Ms. NORTON. May I ask you a question? If you look at the federal work force over a period of, let's say, the last five years, is it rel-

atively stable? Does it go up each year? And what would be different about it?

Mr. KING. It has gone up. I mean the line had steadily gone up, and then it stopped about a year and a half ago, and it started to drop slightly, the actual gross employment, but our departures, our attrition rate in 1988 was about 8.7.

I would like to correct my own testimony for the record. It is wonderful coming to hearings, Madam Chair, and I want to thank you. We get a chance to blow the cobwebs out of our own files. The more accurate number at the end of Fiscal Year 1993 is 5.8 percent attrition.

What we are seeing in almost any kind of indicator that you are looking at for downsizing of our government and doing it in a voluntary way is that we are seeing that the normal kinds of things, attrition being one of those, are not working.

What we have seen though by parallel, and why I was so pleased that the committee wished to include a dedicated witness from the Department of Defense, where they have a genuine success story to tell, and I do not want to usurp that, but I think one of the things that is most interesting among their figures, along with the buyouts, was almost one out of five people who took a buyout, left government. They left government. They did not have a retirement. They left. I think that is an interesting number to look at, and I am saying that is one of the things that we have not really examined or looked at, the long-range implications.

Thank you, Madam Chair.

Ms. NORTON. Well, I want to hear from others who may have something to say on this question. Let me focus in though on what concerns me. I hope that we do not develop in a totally unintended fashion a credibility gap on this question.

I can see how one could say there is a permanent—and that is not the operative word for me here—that there is a permanent reduction in the work force if we focus on this ratio of managers to employees. That we can see.

What I think you have to be prepared for is somebody to look each year at the federal work force and compare it to the downsizing promise to see whether or not what we have experienced is a structural decline or a decline that crept up either because Congress authorized new programs and because there were not revisions to our downsizing goals or because money within the agency was funneled in one way or the other.

What I am addressing is the notion of permanent downsizing as opposed to what the government has done many times over, and whether or not, in fact, there is a methodology or there are tools to make downsizing, in fact, truly permanent.

Yes, Mr. Johnson.

Mr. JOHNSON. Madam Chairman, I think you are exactly correct to worry about that. If we only focus on the people and getting rid of 252,000 people or 100,000 or 300,000, I will almost guarantee you within some period of time that will be back. The process needs to change.

In order for us to make permanent, solid, structural reductions in my agency, it has to come along with procurement reform. We have to change the way we run our procurement system, not make

it less oversight, but to make it more efficient. Then we can do that.

It is not a unilateral situation. You are exactly correct. In 1982, the Reagan administration came in and had a huge reduction in force, I believe, in that year. Our own agency let go 300 positions, affected 120 people who got RIFed, but 1,200 people were affected in the process. That lasted only a very short time because nothing was changed. The work was not changed; the organization was not changed. All that changed was as soon as money became more available, the people came back.

The importance of the national performance review, I think, Madam Chairman, is the fact that there are inside that report hundreds and hundreds of specific process, specific regulation, specific legislation changes. If we get those passed, then these changes will be permanent.

If we deal with just the numbers of people and do not change the process, I will guarantee you that it will be right back as soon as money gets a little bit easier.

Ms. NORTON. Ms. Kunin.

Ms. KUNIN. Madam Chairman, actually the direct lending program in the Department of Education may be a good example of the point that you are making. In total we will be adding 350 people in the next two years for that program, but we are reducing in the rest of the department 222 people, so that it is not just an add-on over business as usual, and the rest of the department will be going through some of the structural changes, management changes that will allow us to change the process in order to reduce the labor force in the rest of the department and not just say we are going to pile this new program on top of everything else.

Ms. NORTON. I would like to know if you, Mr. King, and your colleagues at the table have studied or looked at all at the experience of the Postal Service. When the Postmaster came forward, he was greeted with cheers as he discussed the restructuring of the Postal Service, and in many ways he did a very good job.

He came back before our committee, and he was greeted with jeers because there were a host of unintended consequences. With buyouts, they had more people to buy out than they could possibly use. They had some problem, and in fact, they bought out, I think, more people than their goals required.

They may well have made strategic errors in how they targeted. It may have been that they did not get the buyout requests from where they had anticipated, but some of the consequences were really quite outrageous, like people being moved to where there was no work to do or where they were not needed.

So I suppose if you were to ask people today about the Postal Service buyout, their opinions would be quite different from what it was when they heard that the buyout was going to take place in the first place.

Now, in government we have a tendency to repeat ourselves, especially our errors. That is why I ask if anyone has done an analysis of what happened there, and can you tell me, Mr. King and others, how you are going to avoid this happening again?

Mr. KING. Well, the Post Office is, other than in a very limited way, outside of our particular jurisdiction, but what I would say is

that if you would like the yin and the yang, that is why I was so high on discussing the Department of Defense, which was at the same moment in history making decisions on downsizing and better managing a governmental unit.

I would like to, as you would, point to the success stories done by thousands of competent, dedicated civil servants, as they did in the Department of Defense.

Ms. NORTON. Could I just say, Mr. King, that I am far less interested in the success than I am in the failure because I learn more from mistakes than I do from people who come forward and say, "See, we did it fine."

Mr. KING. If they are learning exercises.

Ms. NORTON. That is why I asked a very specific question. The closest analogy I could find was GM that messed up, even though it intended not to, and I did not ask you about GM because it is not in your jurisdiction.

The fact is that the Post Office, so far as I know was first to do this. They were first. They had more flexibility in some ways than you have. They are a far larger "company" than you are, and there were unintended consequences. I want to know if you, Mr. King, or anyone at the table has looked at that experience to see if it tells you anything about the process you will undergo if Congress approves VSIPs?

Mr. KING. Well, my first observation would be that, as I suggested, the bill that is before us addresses not the decision of the individual on buyouts, but looks at the job from a managerial point of view and sees whether that job should be retired, as it were, and that is the approach. It is not queuing up by those who would like to leave government. It is the decision by management, and they point out the particular jobs that need to or could be eliminated through buyouts, and it is one of the tools.

That is something I think that we have learned from the Postal Service, as we learned from the State Government in New York and we learned from several other municipal and State jurisdictions, where you stood by and let folks decide themselves whether they wished to leave.

The other day when we were talking about this, I turned to my colleague, Mr. Klein, who is an expert in this particular field, and I said, "If the buyouts come, Mr. Klein, you are eligible. But you will not be offered a buyout. So do not be restless. You will be with us for a number of years, sir."

We have talked to folks, yes. We have talked about it. We have learned from the Postal Service certain of the lessons, but I have not done a study of it. I am working off reports that we do receive and information that is many times in stories rather than formal legal appeals that come through our agency, Madam Chair.

Ms. NORTON. Have you looked at the Library of Congress?

Mr. KING. Merely what I have read, Madam Chair.

Ms. NORTON. Could I just say this so that everybody knows I said it?

I think it is scandalous not to have looked at those two experiences, frankly, and we have not done buyouts in the federal government. That is not the way it is usually done. We do early-outs, and we do have successful Department of Defense experience. That is

not an agency that is very much like the agencies I see at the table.

We need to draw on as much experience as we can, and I am going to ask each and every one of you to look at the experience of the Post Office in the hope that those mistakes will be caught. I am not confident that everybody automatically imbibes—in fact, I do not know how many people have looked closely at the Department of Defense experience except for you, Mr. King.

In any case, I admonish you to look at the little experience we do have in the federal government, especially in the Postal Service, which has in some ways greater flexibility than even you have, so that we are not faced, we who have to fight for this on the floor, with a bunch of "I told you so's" when we try again to do buyouts.

Mrs. Morella.

Mrs. MORELLA. Thank you.

I want to appreciate all of you being here and the fact that you will be following through on this. But I wanted to pose a situation where you do not have the buyout authority and you have to resort to RIFs. When we talk about the fact that it will kick the last hired, women, minorities, lower income people, you have defeated the purpose of streamlining the agencies and the departments in terms of the mid-management, right? Are you not then laying off or you are going to be losing the wrong people? Mr. King.

Mr. KING. That is your decision, Madam Chair, and your colleagues' decision.

Mrs. MORELLA. But I mean if it does not happen, would that not be the case?

Mr. KING. Sure, absolutely.

Mrs. MORELLA. We would be laying off people, reducing our work force with the wrong people.

Mr. KING. Eloquently said.

Mrs. MORELLA. And so I think this is a point that we need to emphasize. People will not have jobs. You are still going to have your managerial heaviness or whatever that conflicts. I think we need to bring that point out more.

Back to the question that I posed to the previous panel of secretaries. I read in an OPM publication of the goal of reducing from seven employees per manager to 15 employees per manager and the idea of reducing the 285,000 managers by about 140,000 positions over five years.

What I really would like to know is: what are the figures that we really are striving for altogether if we are looking to reduce the 252,000, take 140,000 if that works out for the managers over five years? Are we factoring in the 30,000 from DOD civilians? What is it? What is our goal or how would we arrive at the rest of that goal?

Mr. KING. Again, I think this is true of every agency. Each of us looked and did our long-term planning, and consistent with both reinvention and with our own internal needs developed a budget strategy and a personnel strategy.

The 252,000 may be the total of that. I know in my agency, as you heard me talking, I am talking about reducing a work force more substantially than the Department of Interior, which is bigger than me, by a factor of ten. What I am looking for are the tools

to manage within a 12-month period now. If we do not have it now, it is academic to have any other discussion.

How can I best budget? What is downstream five years from now is downstream five years from now. From our perspective, what we are suggesting is that a model number for supervision, and that was one of the things that the indices looked at, is where you have this high level of supervision. In many cases it was layering. We found that to be true.

Part of that is because of our rather interesting method of paying people, where we will not pay for certain kinds of expertise, but we will pay for management. We take various types of people through our classification system, which must be cleaned up, and there is a dedicated section of reinvention, to address that.

Our immediate need, you are correct. There are long-term needs, and we will be coming back here, but our immediate need, and I am talking about in days, not months, in days, is to have this buyout authorized and approved by the Congress.

Ms. NORTON. And so each of you then are dealing with your own plan. Maybe it will ultimately lead to the total number; maybe it will not. But are you looking at like a percentage in each agency?

Would anyone like to comment on that?

Mr. JOHNSON. Yes, I will just reiterate, Mrs. Chairman, that we went back and are continuing to go back and look at the mission we have. Then we figured out ways to do them a lot more efficiently.

At the moment the snapshot we have taken says if we can accomplish those changes, we can probably lose between 15 and 20 percent. We did not start out with 15 or 20 percent.

In terms of the management ratios, there also we have to look at particular areas. One to 15 is an average number. Certain functions that are very complicated to manage probably would be best at one to seven. Others where the jobs you are managing are quite similar, less complex, one to 25 or 30 might be appropriate. So you really when you do the job have got to look at the specifics of the work to be done, not just deal with an IDP.

Mrs. MORELLA. I have seen a document which has said four percent was really what the goal was in terms of the reduction, but you are saying there is latitude.

Mr. JOHNSON. Two, fifty-two over two million is 12 percent.

Mrs. MORELLA. I would like to ask Mr. Broadnax about NIH particularly since they do research there. The kind of plan that you might have, what are the employees that you would target for the buyout when we have it passed through the Congress, and how would it affect research?

Mr. BROADNAX. Let me say at this point in time, we have a broad outline for the entire department and a broad outline for the Public Health Service, which you know better than I do is where the National Institutes of Health resides.

Dr. Gormis, as he has begun to look at NIH, is certainly interested in focusing on the administrative and managerial cadre as we have described in our department-wide plan.

We have not at this point in time begun to focus on the research side of the house in those discussions. I know that is carrying on a more scientifically oriented review to look at that side of the

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house, but we have not begun to do that within the context of the streamlining plan.

Mrs. MORELLA. It would be an important consideration.

Well, I want to thank all of you for testifying. In the interest of time, Madam Chair, I will turn back to you. Thank you.

Ms. NORTON. Thank you, Mrs. Morella.

Ms. Byrne.

Mrs. BYRNE. Thank you, Madam Chairman.

First of all, I want to compliment Mr. Johnson on his testimony. We have been hearing from the secretaries and the agency heads. He is the first one who has laid out the process is more important than the numbers, and he said it clear and he said it loud, and it is absolutely true, and I thank you, Mr. Johnson, for saying that.

The other question I had, Mr. King, you had talked about a gentleman sitting next to you where you said, "Don't worry, Mr. Klein," I believe it was. "You are not going to be offered a buyout."

And that brings up really my biggest concern. I went to kind of the heart of it with the secretaries, too. If we have two jobs and two people who are eligible for buyout and we only need one job and one person, is it a subjective kind of process we are going to go through rather than an objective one?

Mr. KING. Well, we are obviously going to answer objectively. It will be done with the greatest scientific analysis available to humankind, the human brain.

Mrs. BYRNE. Well, I appreciate your answer, but for example, we have got our friend here from NASA, who has a grievance from employees filed against them at the National Labor Relations Board for some of the things they did in reducing their numbers in agencies, and while we can all say that we are going to do that, it appears to me that good people can disagree about how that comes about.

I guess if we are taking our performance and merit, performance review and we are kind of changing that in the middle of this, you know, what criteria?

Mr. KING. The buyout process in this is very simple. I go to you and I say we have identified your position as either being potentially redundant or redundant for some reason. The question now: we would like to offer a buyout to you. You can say I have intended to stay until I was 93. I love it there, and I am going to stay here until I am 93, and I would say that is terrific, and I would move on to the next position that we have identified and go from there.

Mrs. BYRNE. Okay. I understand that. But if you have got the situation where you have two people who are eligible for the buyout, each holding a similar type job, then who do you offer it first to?

Mr. KING. I would offer it to both if they were both redundant positions.

Mrs. BYRNE. Okay, but you only need one job. Then you are going to have a vacancy that you are going to have to fill, correct?

Mr. KING. If I eliminate the two jobs, I can keep a full-time equivalency. It is not necessarily the same job.

For example, I think in my agency if a number of people take advantage of retirements, my folks who handle career entry, I can reduce the number of people there. On the other hand, I am going

to be backed up in my retirement section, so that the job over at career entry is really redundant, but I need a new person as it were, a new job created at the other end.

Although you might look at it when we are talking, it is two separate responsibilities, and that is really what we are backfilling. Nuclear Regulatory has a classic in this. They are not doing nuclear bombs and weapons anymore, but they are looking at clean-up, same agency, different responsibilities, and you need someone new with a set of credentials to manage that.

What we are trying to do is effect with this tool voluntary departures done in a very open and above board way, and on a voluntary basis, and that has been the experience of DOD.

CIA will be coming in. They have had an absolutely classic experience in their methodology on this, and it has been very successful, so that we look forward to the success, and I am hopeful and from our experience it has been done on the up-and-up, and people generally are very satisfied. The feedback is absolutely excellent.

Mrs. BYRNE. I think when you look at the Chair Lady's request with Post Office, you will see there was a tremendous amount of subjectivity.

Mr. KING. There were also some stylistic approaches that I am absolutely in concurrence with the chair on, along with methodology, and that is why my opening remarks were to really focus on the human dimension rather than the other kinds. There are a number of others, but if we forget in this process that we are dealing with human beings and their lives, then we have done a disservice, I think, across the board.

I think all too often in these discussions we get into statistical analysis and everything else, and in the process we lose sight of what really the bottom line is, at least from our perspective as personnelists, and that is really why I took the approach I did and why other people may take another way or another approach or anything else. I am not into whether it was right or wrong, but the test for me is: was it human? Was it decent? Was there a sense of responsibility by the agency?

Really if we are going to be the model employer, we ought to conduct ourselves accordingly, and we have not always.

Mrs. MORELLA. Has OPM done a survey of its employees to tell how many people would avail themselves of buyouts at this time?

Mr. KING. We know how many people are eligible because we do have the computer printouts. We have statistical models on how many people traditionally accept them. We have identified the jobs that we believe are redundant, and we are prepared to move on them, and what we must do is move. We have to make our own internal decisions by the 15th of February so that our action will be—we have 30 days because after the 19th of March it is of little value to us, the buyouts.

Mrs. MORELLA. Oh, I absolutely agree, and I am a fan of buyout. I think that it, again, as Secretary Espy said, one of those arrows in the quiver of management.

Mr. KING. Right.

Mrs. MORELLA. But it seems to me that we have been after this now a year trying to get this legislation up and running.

Mr. KING. That is correct.

Mrs. MORELLA. And it occurs to me that any agency that has not surveyed its employees of those who are currently eligible, whether they would take it or not, has missed a golden opportunity to see how successful this is going to be agency by agency.

Mr. KING. I think there are two difficulties. One, and again my colleague would like to speak in a second, but I think one of the things in reality in the world we live in, if I go and ask you whether you will accept an early buyout, how likely are you to accept an early out, how likely are you to come and volunteer and say, "I think it is time for me to go. I have put my time in. I have had a distinguished career. I am going to leave," so that we played with all of those kinds of scenarios. Now we are up against the wall. Are we or aren't we going to act? And we are down to the hour.

Mr. JOHNSON. We have looked at and it appears in sort of straw voting that maybe about one third to one half of the people might accept them who we would offer them to.

Another dynamic, which I think is at work at least from things that I have sensed in our agency, I am not really worried about losing good people. It is my opinion that I have got two qualified, competent people who have been blocked by this system for every one competent one I might lose. So another sort of exciting dynamic to this is if we can break this open, I think we are going to free up an awful lot of talent that has been stuck down in these agencies because of the system's top heaviness.

Mrs. MORELLA. Thank you, Madam Chair.

Ms. NORTON. Following Mrs. Byrne's notion, because I could not agree more, I think that done correctly, an informal survey of the kind a couple of folks, I think, have said they have already done cannot possibly hurt if there is the right disclaiming language. And I must say, Mr. King, the notion that it has a dampening effect on early outs, I suspect that the only early out that you will get now are people who simply have to come out and get another job. So I would not worry about that.

I think as we weigh costs and benefits, given the time frame that you yourselves are bringing to us, that it behooves agencies to get feelers out there to find out what they are going to get for their own planning purposes, especially if you find that you are not going to get the kind of numbers or it appears that you are not going to get the kind of numbers that you want.

I would like to ask you about contracting out. We saw in the last administration a ballooning of contracting out that is mostly unaccounted for and unaccountable. As you know, my concern is that the structural decline argument will rear its ugly head, and we will all be accused of not having meant what we said, which is absolutely not the case, but if it is going to do that, one of the best ways to show it is through contracting out practices.

I would like to hear you discuss the existing experience of your agencies with contracting out and whether you are putting in place anything even remotely similar to what is being required for permanent employees with respect to employees that are being contracted out, and if so, what is it? How are we going to keep that end from slipping in under the tent?

Mr. Goldin.

Mr. GOLDIN. Madam Chair, as part of this process that we have gone through at NASA, we have looked at not only our own employees but what we call the service bought contractors that in some cases, because of prior administration directives, have done some of the work traditionally done by our employees to try and get the best balance so that we would not go work in one area and forget about the other.

So we have looked at the total agency, and in fact, we have found as with downsizing the government employees, we have also downsized some of the support services as we felt it was not contributing to the overall mission. We found more and more of our budget was going into administrative matters instead of advanced technology. So we are trying to reshift the emphasis.

So we believe that you cannot just do a buyout and a downsizing of the government work force. You have to take a look at the sum total, and in fact, in our headquarters organization, we have a very significant downsizing of the support work force that we have from the contractors.

Ms. NORTON. I would like each of you to speak to this one. Mr. Gober?

Mr. GOBER. We are looking at the area of contracting also. Of course, we operate it throughout our hospitals. So there are certain areas that we can look at and maybe contract services for specific areas, and again across the country it would be done based on the local needs.

But we are going to look at all of the areas. We have no intention at this point in time of contracting or replacing permanent employees, government employees, with contract employees. Obviously there are certain areas where we will have to do some very specific contracting, but we are looking at all of those areas also.

Ms. NORTON. The committee, I think, is going to be looking to see if there has been a downsizing of contracting service.

Mr. King.

Mr. KING. Well, we have the good fortune to have Local 32 of the AFGE at OPM, and we are moving ahead very rapidly on partnership. Yesterday we signed our formal agreements, but we have had informal partnership going on for many months now in the agency, and that is one of the areas that we look at.

Obviously our union is very concerned as to what we do, and we intend to work with them very closely. The areas that we had that are contracted are relatively specialized, and where we can reduce them, we are in the process of reducing them as we speak.

But the Jimminey Cricket in here, and the Jimminey Cricket is much larger than the Disney one, is our bargaining unit, and as a matter of fact, Local 32 President Ty Couey asked me if I would, and if you would permit me please for a moment, enter the testimony of his observation.

We, and this is his quote, "need the tools. You make the rules. Let us work together on our partnership. Now we need you."

That is how we will conduct ourselves with our employees so that there is fairness and equity throughout at least our operations, and we will keep track of contracting because we understand the implications of your question, Madam Chair.

Ms. NORTON. Mr. Johnson?

Mr. JOHNSON. As you know, Madam Chair, General Services Administration is one of those agencies which has done an awful lot of contracting out. In my looking at the effect of this, it ranges from being pretty smart to pretty dumb.

Where the agency took steps to contract out just to reduce FTE, in many cases the cost of doing that exceeded the cost of what was being done within the government. That is dumb.

In some cases, work can be performed efficiently. The thing we are doing is watching the dollars, as well as the people, because the end result, of course, is process and cost. It is not just having so many people.

We have some awfully good examples of contracting out where the customer is better served, the cost to government less, and we have some examples that are probably the reverse, where it was done just for FTE.

So if you watch the dollars, as well as the people, and keep an eye on what the real service is that you are performing, I think you have an efficient approach.

Mr. BROADNAX. Madam Chair, at HHS in our streamlining conversations across the department, certainly the issue of contracting has been raised, and as you know very well, as a part of the agency's history we do have a substantial amount of our work that is done through contractors.

But none of the conversations that we have been having over the recent past has focused on any substantial or I could say any change really in the balance between use of contractors and public employees to do our work at this time.

Ms. KUNIN. Madam Chair, in the Department of Education we are reviewing in general the appropriateness of contracting and seeing if it is the most cost effective way of doing business. We certainly do not foresee any down-the-line downsizing being substituted by contracting.

There is one exception that you will see a change in the Department of Education, and that is because of a savings of $4.3 billion that is anticipated over five years from transforming the student loan process to direct lending, and in fact, the legislation encouraged getting the expertise and not hiring all of those people to do that. So we are having some major contracts in that area because that is the only logical place to go, to take the people who know the business best and can serve the public most efficiently.

But the net result will still be a $4.3 billion savings.

Ms. NORTON. There has been a kind of axiom, untested in the federal government at least, that if you contract it out, it must be cheaper, and of course, as you all know, now that we are being analytical about that, we are finding that that is not always the case.

My concern is not so much that there would be something, although I expect some of it to be tried, as blatant as simply contracting out for jobs that have already been eliminated. My concern is that there be a fair share of downsizing at the contracting out level.

It is impossible to make the case if we get anywhere near 100,000, much less the 252,000 that we need unless we are replacing the same number of contracted out services. So I urge as strong

and precise an eye on those services as on the processes you are now going through.

Let me have one final question to begin with Mr. King, and the agencies may have some insights here as well. There are slogans that make sense with the public when they hear it. When they hear the President say, for example, to take one that is not particularly relevant to this hearing, that when you need health care, that you will never lose, you know—they know what that means.

But when they hear Mr. King say, for example, that RIFs or layoffs cost more, that is counterintuitive. The notion that, and we have even heard figures here, to lay off somebody you incur more cost than if you gave them a gift and said, "Leave."

I would like to ask you to explain—as Malcolm X said, "Make it plain," and they used to say in Mississippi when I was in Smith, "Break it down, Brother, break it down"—I want you to explain to us and to anyone how it could be that letting somebody go with all the health care gone, all of the overhead gone, could cost more, in some cases so much more, than giving that person some money to go.

Mr. KING. Well, first, it costs about $30,000 in real cash benefits, and I can give you the chart on that for the committee. There is another $6,000 of indirect costs that are absorbed by the agency itself in overhead. The costs in actual outflow are very real—generally we use the number around $30,000.

If you look at the entire costs, Madam Chair, you will see on the chart we use both direct and indirect costs, and it is about $36,000 for a RIF. Again, those costs are built on average departure, and as you always know, there are exceptions to those rules.

Buyouts generally occur at the higher level of the scale of pay and benefits, and since, as you know, the benefits and the other things are based as a percentage of your salary, the implications on removal are very profound.

I have also supplied for the committee a chart that, quite frankly, would be difficult to repeat, but is visually coherent, I believe, showing an example of why RIFs cost more than buyouts, showing the assumptions of voluntary optional retirement with buyout, voluntary early retirement with buyout, voluntary RIF, GS–14 position abolished and incumbent separated and then an involuntary RIF, how each of those plays out in the numbers.

At the end of the day the cost of the RIF is significant and profound and substantially above all your other scenarios, and that is laid out on this particular chart. It might be helpful, Madam Chair. If that were done in graphics, it becomes fairly clear for those who might do the analysis, and I know a number of your colleagues might, and that might be helpful.

Ms. NORTON. Well, I appreciate the chart, and I had not looked at the chart. I urge you to get a way to say that, to make people understand that in three sentences or less because I really do think it is important. That is not the way the public understands buyouts to work.

Part of the problem you and any human being in the system would have is that you are dealing with a very complicated federal system that is complicated because it aims to be fair. At the same

time it ends up being very complex, and it is important for us to be able to make people understand.

Mr. KING. I hope I am worthy to your charge.

Ms. NORTON. Mr. Chairman, I am glad to see you back.

Mr. MCCLOSKEY. I am glad to be back. I hear you have done a wonderful job, covering everything. So I really do not have any other questions.

Does anyone have anything they want to raise that has not been covered or elaborated on?

[No response.]

Mr. MCCLOSKEY. Thank you very much.

Mr. KING. Thank you, Mr. Chairman and Madam Chairman.

Mr. MCCLOSKEY. For our next panel we have, Mr. Richard Haver, CIA Executive Director for Development and Community Affairs, and also Mr. Albert Conte, Principal Deputy Undersecretary of Defense for Personnel and Readiness, DOD.

Welcome, again, Mr. Haver and Mr. Conte. I also really wanted to be at your swearing in. I know you are off to a good start and welcomed at DOD immensely. You gentlemen proceed as you like, and I am sure Mr. Conte may want to, in the interim, introduce his associate.

STATEMENT OF ALBERT V. CONTE, PRINCIPAL DEPUTY UNDERSECRETARY OF DEFENSE FOR PERSONNEL AND READINESS, DEPARTMENT OF DEFENSE, ACCOMPANIED BY RICHARD HAVER, EXECUTIVE DIRECTOR FOR INTELLIGENCE AND COMMUNITY AFFAIRS, CENTRAL INTELLIGENCE AGENCY

Mr. CONTE. Chairman McCloskey, thank you. I, too, am sorry you missed the swearing in. It was that much less without you there.

I do want to introduce and acknowledge Ron Sanders. Dr. Sanders is the Principal Director of Civilian Personnel Policy with the Department of Defense. You may recall that he was DOD's principal witness in the October hearing and has been involved in the DOD downsizing experience for quite a few years, actually from the beginning. So I am pleased to have him here to give me support.

And if you do not mind, Mr. Haver, I will begin with my testimony.

Mr. HAVER. Please do.

Mr. CONTE. Mr. Chairman, if that is okay. I would ask that my full statement be included in the record.

Mr. MCCLOSKEY. Without objection, so ordered, and proceed as you like, Mr. Conte.

Mr. CONTE. Well, I would like to begin by putting the department's civilian reductions into perspective. We began Fiscal Year 1990 with 1,117,000 civilian employees. By Fiscal Year 1999, we will be down to about 794,000. That is a net reduction of over 320,000 civilian employees, a formidable task.

And thanks to the aggressive management in DOD, the incentive tools granted to us by Congress, and very excellent support from OPM in our placement and early-out authorities, I am pleased to report that we are already more than 55 percent of the way to our

target, and a whopping 70,000 of those separations took place in Fiscal Year 1993 alone.

Also, it must not be forgotten that we have nearly 150,000 more reductions ahead of us. So we are not resting on our laurels. We are not breathing a sigh of relief.

But our objectives have not been so much to get down to the lower employment levels that are required in our budgets. We have been and we must continue to be concerned about a work force that is balanced in terms of grade and skill and that sustains the progress we have made in quality and equal employment opportunity.

We want to minimize involuntary separations and assist those employees who may have to be involuntarily separated.

There are three specific instances where we have and will offer incentives. First is to avoid reductions in force; second, to place employees scheduled for separation wherever we can; and, three, to shape the force.

And with the hope of totally avoiding RIF—reductions in force—we require that our personnel offices, once they reach the decision that they have no other alternatives, offer incentives at least 30 days before they actually issue the RIF notices.

I might add here that there is a great deal of forethought, planning, and discussion that goes on before they actually reach the decision that they are going to have to issue a RIF notice; but a minimum requirement is that they offer the incentives 30 days before they issue the RIF notices.

We then look at the surrounding installations and expand the incentives offered to those employees whose skills might match the skills of the employees scheduled for separation, and in this way, we create vacancies and hope to be able to place employees scheduled for separation.

And finally, we use incentives to help shape the civilian force. For example, we could use them to reduce management staff and high-grade level employees.

So far we have used incentives largely to avoid reductions in force. Our largest civilian employers, the Army and the Air Force Materiel Command and the Naval shipyards and aviation depots, knew early in Fiscal Year 1993 that their work load would be reduced and they would need fewer employees.

In anticipation of these reductions and of Fiscal Year 1994 known draw-downs, they each offered incentives. The Army and the Air Force both totally avoided involuntary separations in Fiscal Year 1993. The Navy did not completely avoid the RIFs, but they significantly reduced the number of employees that they had to separate involuntarily.

We have, and we will continue to expand, incentive offers to employees at other installations with the hope of creating vacancies to place those who are facing separation. In the near future, we will actually test this expansion on a broader scale in California, Nevada, and Arizona. We will do this specifically to place some 1,200 employees who work in California and who are scheduled for separation between now and the end of April.

During Fiscal Year 1993, as I stated earlier, our civilian strength came down by 70,000 people. About 35,000 employees left on their

own by resignation, transfer or retirement. We also paid 32,000 incentives to encourage employees to leave the department.

Without those incentives, we would have had to involuntarily separate 32,000 to 35,000 employees, which would have created chaos in some of the organizations.

Let me provide some profiles on the results so far. The average taker has almost twice the years of service as the average DOD employee. The average taker has 26 years of service as compared to the average DOD employee with 15 years of service.

Also, on average, those who accepted regular retirement with an incentive are 61 years of age, and those who accepted early retirement with an incentive were age 52. The average incentive taker is a little higher on the GS scale than his or her DOD counterpart. They are predominantly white males, and the majority of them are veterans.

The average incentive taker gets between $24,000 and $25,000, and this cost compares favorably to the cost we would expect to pay for involuntarily separating an employee. Congresswoman Norton, this gets kind of at the question you were asking the previous panel. The average cost to separate an employee in DOD has been about $14,000 for severance pay, $6,000 to $8,000 for unemployment compensation, and about $4,000 if the employee chooses to continue his or her federal health insurance for 18 months. So, therefore, incentive payments are money well spent.

The actual cost versus the savings, of course, are a function of grade and years of service of the individuals, but that has been an average.

I would like to make a final observation. Can the agencies reduce their work force without incentives? The answer is certainly yes. They can limit or freeze new hiring, as DOD has done. With OPM's approval, they can offer early retirements, as DOD has done; and they can actively pursue out-placement and training programs to help their people find new jobs. When all else fails, they will then have to fire those excess employees who remain.

Can agencies reduce their work force without the incentives and without firing employees? The answer for the Department of Defense, at least, has been a resounding no.

Chairman McCloskey, in your opening statement you said that you did not think that we could reduce 252,000 federal employees without offering the incentives. That has certainly been the case with DOD.

Further, agencies, if they are forced to rely on the RIF as the tool they have to use to separate employees no doubt will find it has a disparate impact on women and minorities. A parade of very distinguished witnesses who have testified earlier confirmed that fact, and they have also confirmed that productivity will decrease and morale will be destroyed.

Indeed, you members of the committee and all of our witnesses have stated that more eloquently than I.

Madam Chair, Mr. Chairman, the Department of Defense is grateful for the wisdom of the Congress in giving DOD the authority to offer separation incentives, thereby allowing us to avoid reductions in force and minimize involuntary separations. Correctly planned, targeted, and executed, an incentive program combined

with other programs gives employees the best opportunity for continued employment. They deserve those opportunities.

And managers at all agencies who have been given the responsibility to reduce employment levels and at the same time improve customer service really need these tools.

That concludes my oral comments. I would be pleased to take your questions.

[The prepared statement of Mr. Conte follows:]

BIOGRAPHY AND PREPARED STATEMENT OF ALBERT V. CONTE, PRINCIPAL DEPUTY UNDERSECRETARY OF DEFENSE FOR PERSONNEL AND READINESS, DEPARTMENT OF DEFENSE

After a short tour with the Department of the Navy, Mr. Conte returned to the Office of the Secretary of Defense with his selection as the Principal Deputy Under Secretary of Defense for Personnel and Readiness effective December 12, 1993.

In December 1992 Mr. Conte reported as the Principal Deputy Assistant Secretary of the Navy for Financial Management. He was immediately designated as the Acting Assistant Secretary (ASN, FM) and served in that capacity until selection to his new position. As the Comptroller of the Navy, he was responsible for developing and maintaining policies, standards, procedures and operations of all financial management throughout the Navy.

Mr. Conte served as the Director of the Defense Finance and Accounting Service (DFAS) from January 1991 through December 1992. DFAS was established as an independent agency and was created by functionally transferring the diverse financial and accounting organizations of the Military Departments into a single organization. Mr. Conte headed the Implementation Groups to create the agency and upon activation of DFAS on January 15, 1991 was selected by the Deputy Secretary of Defense to serve as its first Director. The agency was initially staffed with over 10,000 personnel and under Mr. Conte's leadership expanded to over 26,000 personnel. Mr. Conte was awarded the Department of Defense Meritorious Civilian Service Award.

Mr. Conte served as the Deputy Assistant Secretary of Defense for Reserve Affairs (Manpower and Personnel) from May 1988 to July 1990. In this position he was the principal advisor to the Assistant Secretary for Department of Defense-wide Guard and Reserve personnel policies, manpower management and compensation programs. He also served for a period of time as the Principal Deputy Assistant Secretary and was awarded the Department of Defense Meritorious Civilian Service Award for his outstanding performance. In 1990, Mr. Conte was the recipient of the Presidential Rank Award for Meritorious Service.

Mr. Conte has spent all of his 29 plus years of federal service with DoD, beginning his career in government in 1964 with the Department of the Navy as a budget analyst. He served in progressively more responsible assignments in the budget analysis field before transferring in 1970 to the Naval Ocean Systems Center in San Diego, California, serving on the Technical Director's Staff. He was subsequently reassigned in 1973 to the Washington, DC area to head the Center's Washington Liaison Office. In 1974, he was selected for a position in the Office of the Assistant Secretary of Defense (Comptroller) with review responsibilities over a broad range of operations and maintenance programs of the military departments. From 1982 to 1988, he served as the Director of Military Personnel with budget and program review responsibilities for all active and Reserve military personnel programs.

A native of Washington, DC, Mr. Conte received a Bachelor of Arts degree from the University of Maryland in 1964 and a Master of public Administration degree from San Diego State University in 1973. He is a graduate of the Federal Executive Development Program (FEDP–IV) and the Federal Executive Institute.

Mr. Conte is married to former Joanne H. Kraft, and they have four children.

Mr. Chairman and Members of the Committee: I am pleased to appear today to discuss the restructuring of the Federal work force. I appreciate the opportunity to share with you our experience in reducing civilian employment levels in the Department of Defense using the Separation Pay Program which Congress authorized in the National Defense Authorization Act for Fiscal Year 1993, P.L. 102–484.

The Department of Defense began Fiscal Year 1990 with a strength of 1,117,000 civilian employees. By Fiscal year 1999, we have programmed civilian end strength to be down to about 794,000—a net end strength reduction of over 320,000. We have four major objectives in our work force reduction. They are to (1) achieve the civilian employment levels set forth in the President's Budget Submissions, (2) achieve a

work force that is balanced in terms of grade and skill and which sustains the progress we have made in quality and in equal employment opportunity, (3) minimize involuntary separations, and (4) assist those few employees who may have to be separated involuntarily. The good news is that we are over half way to our target and I am very pleased to report that with the Separation Pay Program we are achieving all of our major objectives.

Although the President signed the public law authorizing our program October 23, 1992, we did not begin aggressive use of incentives until April 1993. Since then, we have effectively targeted incentive offers at employees in occupations, grades and locations where we anticipated the need for reduction in force or involuntary separations to reduce or shape the workforce.

Historically, DoD attrition has averaged between 8 and 9%. By the fall of 1992, attrition had declined to less than 6%. For many years, Voluntary Early Retirement Authority (VERA) was the best tool we had to avoid reductions in force (RIF). When we first began reducing the work force in Fiscal Years 1988 and 1989, we expected that 16 to 18% of VERA eligibles would take early retirement. By Fiscal Year 1992, we were lucky to get a 4% "take rate".

Our largest employers of civilians are our industrial activities—the Army and Air Force Materiel Commands and the Naval Shipyards and Aviation Depots. At the beginning of Fiscal Year 1993, each of these activities faced fiscal and workload reductions that under normal circumstances would have caused the involuntary separation of thousands of employees. Using existing tools and the new separation incentives, both the Army and the Air Force Materiel Commands successfully avoided reductions in force (RIF) during Fiscal Year 1993. While some Naval Shipyards and Aviation Depots have issued separation notices, the number of employees scheduled for involuntary separation was significantly lowered because of incentives. The story is the same at installation after installation.

Let me share with you the Air Force's experience at Lowry Air Force Base in Denver. Lowry will close in September of this year. When closure was announced, Lowry had about 525 employees. They offered incentives and 217 employees took advantage of the offer. Over 150 employees have been placed in other DoD jobs through our Priority Placement Program, and Air Force will place 50 or more through their own placement programs. Using the Defense Outplacement and Referral System (DORS), an automated placement program we developed in coordination with the Office of Personnel Management, a dozen or more employees were placed with other Federal agencies. Another 80 employees applied and were selected for individual jobs at other Federal agencies. As of this week, Lowry projects that only 42 employees remain to be placed. (Please note, these numbers do not total because gains are not included.) To find jobs for them, we will offer incentives to employees at other DoD installations in the commuting area. When all is said and done, Air Force anticipates separation of less than a dozen employees. Without incentives, and our other flexible and aggressive programs, we'd be looking at involuntary separation of over 200 loyal, hard working employees.

At the beginning of Fiscal Year 1993, we anticipated almost 35,000 involuntary separations throughout the Department. Instead, we ended the Fiscal Year having achieved a reduction of almost 70,000 employees with only 2,000 involuntary separations. Approximately 36,000 left through normal attrition; we paid 32,000 incentives. In other words, the use of incentives doubled the number of Fiscal year 1993 separations that we originally expected.

Of the 32,000 employees who took incentives in Fiscal year 1993, 16% resigned, 41% took voluntary early retirement and 43% took optional retirement. The Components estimate that about 53% of the employees who are eligible for optional retirement and who have been offered an incentive will take it. About 32% of the early retirement eligibles who have been offered an incentive has taken it.

Teh average incentive taker has almost twice the years of service as the average DoD employee, 26 years compared to 15. Both early and regular retirees average 28 years of service and $25,000 per incentive. The age for early retirees is about 52 years; for regular retirees about 61 years. Those taking a resignation incentive averaged 15 years of service and 48 years of age. They received an average incentive payment of $17,000.

Those who have accepted incentives are predominately (70%) males. The majority of the takers are veterans. Only 23% of the incentive takers are minority members compared with 27% minorities in the DoD population. The average DoD employee is grade GS–9.0, while the average incentive taker is grade GS–9.2.

CONCLUSION

We can say unequivocally that with incentives we have avoided thousands of involuntary separations. We also believe we will minimize the impact on women and minorities because we are able to avoid RIF. Separation pay is cost effective. It avoids the high cost and severe effect RIF has on productivity. Our program is a success.

There are several cautions we would share with other agencies as they think about implementing their streamlining programs. First, we firmly believe agencies should carefully target incentive offers to the groups of employees they need to reduce. Across the board offers of incentives are risky; the result may be hiring new employees to do the job of employees the agency just paid to leave. Second, be willing to invest the time and energy to communicate with the work force and with their representatives; they need and want as much information as you can provide. Cooperative relationships with employee organizations are vital to controlling rumors and telling employees the straight facts. Third, talk to the fine staff at the Office of Personnel Management. We wouldn't have made it without their constant help and advice. Share your plans with them, especially with the Retirement and Insurance Group who will process retirement applications. Fourth, agencies must focus on the employees who will remain after the buyouts. They need positive attention, counseling, training and feedback. They are the ones on whom our future depends and on whom the dramatic changes envisioned by the NPR will have the most impact. Finally, we in DoD are happy to be a resource for other agencies.

In conclusion, let me say again that an incentive program, managed correctly, works. It will help reduce and balance the Federal work force. Employees support it. And when the trade-off is involuntary separations with all of their negative impact on both the employees and the agency, incentives are the wisest choice.

Mr. MCCLOSKEY. Thank you, Mr. Conte. I am sure we will have questions and discussions after hearing from Mr. Haver.

Mr. Haver.

Mr. HAVER. Thank you, Mr. Chairman.

Mr. MCCLOSKEY. Your statement is accepted for the record, and please proceed as you see fit.

Mr. HAVER. Thank you, Mr. Chairman and Madam Chairman.

I would like to introduce Mr. Thomas Land from the National Security Agency and Mr. James Seacord from Central Intelligence Agency, who are the people who have had to implement our program in the intelligence community and are here to provide information on exactly how that was done.

I would first like to apologize for Admiral Bill Studeman, who would have liked very much to be here today, but he came down with the Washington bug and his voice has been reduced to a froggy whisper. So he sent his mouthpiece here to replace him.

We do have a statement for the record, and I would ask, sir, if you would consider reading that into the record. In the interest of time, I will try to summarize the contents of those pages and then allow you to have the time to question us and get the information you desire.

We began in the intelligence community some time ago to reduce our personnel. In fact, in 1990, the fact of the end of the Cold War and change in our environment became apparent, and our oversight committees brought this to our attention and worked with us. Their encouragement and support was instrumental in allowing us to embark on personnel downsizing early in the process.

We began with a process of early retirements. The response there was mild at best, particularly out at the National Security Agency, and we then went to the incentivized early retirement process, and the results picked up significantly.

Without that and congressional encouragement and without those approaches, we would not be on the track we are on. At the present time the intelligence community, particularly those portions of it that are funded within the National Foreign Intelligence Program, will achieve the President's goal of 12 percent decrease in personnel size by the end of 1995, and we do not intend to stop there.

Again, with the Congress' support and assistance, we will be moving to further reductions through the latter part of this decade.

In doing so, we have really applied two different approaches. One has been to target the skills that we believed, due to the change in international circumstances and the intelligence business, we were going to have less demand for and target those skills and the individuals within the community that are within those skill areas for the incentivized early out, also a way of controlling the process and guaranteeing that we retain the skills that are absolutely critical to us and those that will be critical in the out-years. That tool was very important in being able to manage this.

Secondly, we have been on a track for the last several years to bring quality management techniques into the entire intelligence community, and we have been combining this incentivized downsizing process with that restructuring of the intelligence community, bringing quality management techniques to bear, to attempt to use one to assist the other.

I should point out at this point that this is all done in conjunction with the Department of Defense. Nearly 80 percent of what I am talking about is included in Mr. Conte's community. Only the Central Intelligence Agency is accounted for outside of the Department of Defense within that large program, with the exception of some FBI and State Department folks.

We have learned some lessons in doing this. It has not been a completely smooth ride, and we thought they might be useful to pass along, and they are contained in our remarks.

The first lesson of all is that there is absolutely no substitute for communicating with the employee work force. The more they understand what is going on, the better informed they are, the process that they and their fellow workers are going to be subjected to, what the goals and objectives are, in areas such as where we are trying to designate skills, why those skills have been chosen and singled out for retention in the downsizing; many community meetings with both senior management and the personnel management services; and then the reaching out to those people who are, if you will, on the edge contemplating their options. To give them lots of support, counseling, and information has been absolutely critical in making this work.

And each one of the agencies has slightly different experiences with that and has learned from each stage of going through it to put as much effort into this side of it as possible. An informed work force makes all of the difference in the world in whether this is done well or with great difficulty.

Secondly is that as we go through this induced or incentivized early out, we are also trying to calculate what that does to the out-years. People who are leaving in 1993 or 1994 are people who would have normally retired in 1997 or 1998. They will not be

there to retire in 1997 and 1998. So it changes our anticipated attrition figures.

We are trying to stay in front of that, and clearly the program must be dynamic in order to work not only in its first or second time through, but in subsequent iterations as we execute the full range of authority that Congress has given us. It is important to keep this tool at work.

And, lastly, I would add that it is important from our point of view to keep this process flowing because the alternative is significantly worse. Reductions in force that are mandated and imposed upon our personnel, which we went through in the 1970's, had a very deleterious effect upon the work force. Particularly in the intelligence community this was evident, and we are trying to seek every possible means to insure that we do not have to resort to that sort of approach.

All of our efforts to give greater opportunities to minorities and women, all of our efforts to spread the work force demographically would be badly affected by a process in which the last in were the first out and in which we could not selectively pinpoint portions of the community that are worthy of more direct downsizing than others because of changed circumstances.

It has been a success thus far. We have learned a great deal. We would be delighted to share much of that with any agencies and organizations we could, and we still have much to learn as we go through the next several stages of the process.

And with that, ma'am, I turn it back to you. Thank you.

Ms. NORTON [presiding]. Thank you. Thank both of you for this very helpful testimony as other agencies begin to follow in your footsteps.

The fact is, gentlemen, most agencies would probably regard you as atypical. Indeed, most of the agencies who have enjoyed buyouts would probably been seen as atypical. Some have been legislative agencies, like the GAO and the Library of Congress, and the Postal Service, which is, of course, on its face different, and even you are regarded as different.

It may be that for that reason you got this authority before others. I would like to ask you whether you believe in trying to help others think through this process that there was anything special about your agency that accounts at least in part for your success, which the other agencies may not find present in their own situation.

Mr. CONTE. Well, I will start off, Madam Chairwoman.

The Department of Defense, as you know, with the Cold War being over, deliberately tried to down-size. We reduced our force structure. That has led to the civilian and military personnel reductions that are on the table for us to achieve.

But we knew from the beginning that, with the types of reductions we are talking about, without the incentives that the authorization committees granted for our military people and our civilians, the alternative would have been that we would have been faced with tens of thousands of involuntary and forced separations. This would have resulted in disruptions unfairness, and imbalances of the work force, which probably would have meant we would have

been very close to mission failure in some of our particular missions.

I do not know that that is particularly different—other than in scope or size from other agencies who are trying to reinvent the way they conduct business, while trying to downsize.

Some of them are faced with relatively large reductions, but I think they are going to have the same kinds of problems that we would have without those incentives. I think our experience has been that, without those, we would have had very significant problems and a hue and cry from our employees if we were forced to just chop them off the rolls as we otherwise would have done without these incentives.

Mr. HAVER. I believe that the intelligence community is certainly atypical of much of the government, but I believe in terms of applying this work force downsizing management principles overwhelm the differences. Probably the most important difference that I think has affected the intelligence community is that as we learned in the 1980's by reviewing our espionage problems that became so apparent with the Walker Whitworth cases and others, that disgruntled employees are a very significant problem for the intelligence community. People who leave with a smile on their face and with a sense of having served well and had that service recognized do not have a tendency to attempt to obtain retribution, in effect, for that behavior.

Those who tend to, in an historical sense, stray from the proper path, and certainly 90 percent of the people and probably even more than that never are tempted, but some are, and clearly the disgruntled individual, those with a grudge, those with a sense that they have been betrayed by those they work for are a problem for us, and we have not calculated what it costs us to in a RIF situation pay a closer attention to those who may have left.

We made a tremendous investment in those people in terms of the trust we have given them, and while even those who are RIFed, the vast, vast majority are never even tempted, unfortunately some have proven over the course of history to be. That is a dimension that we have in the intelligence community probably more severely than others do.

But in summary, I think we have far more in common in terms of compassion for our workers, a sense of sustaining our mission effectively and applying good management techniques which are probably just as applicable to NASA or the Post Office Service as they are to the intelligence community.

Ms. NORTON. Thank you.

Maybe you can help me out on a question I posed previously, and that is whether you studied the Post Office experience and whether you can account for what appears to be a verdict of success in your cases and somewhat less in the case of the Post Office. What is the difference between what you did and what they did?

Mr. CONTE. Well, maybe Dr. Sanders can tell you whether we specifically studied in detail the Post Office experience, but we certainly were aware of it and tried to avoid that approach.

Our program from the very beginning targeted the incentives to those groups, occupations, and work force organizations where the

work is decreasing. In no case that I know of did we make blanket incentives available to all comers.

It was very specific. Regarding a question you asked earlier, I believe it was Congresswoman Byrne who said if you had two employees and only one of those positions needs to go away as a result of streamlining or whatever reason, our approach is to make sure it is known up front before that offer is made that it will be based on seniority and service computation date will be the driver.

Dr. SANDERS. Mr. Conte is exactly right. We looked at the Postal Service and more recently Library of Congress, and as he indicated, the principal difference is one of targeting. If you do not target, a buyout program is no more effective than normal attrition. If you add money to it, you pay people, but it is still at random. If it is at random, you end up paying people to leave that you wanted to stay, and in many cases you have to rehire them.

With planning and targeting, hopefully you minimize those kinds of errors. There is always going to be a little slippage, but with planning and targeting you can minimize that and pay the people who you need to leave, the surplus employees and the surplus skills.

Mr. HAVER. We would agree with that, ma'am, and we would add to it that we also thought it was important to take our time, to stretch out the notification, to make sure there was plenty of prior understanding of what was in this, and the people did not feel pressure to act immediately or they would miss an opportunity. We gave them plenty of time to contemplate it, to understand that if we overachieved our numbers, that we would cut back on them; that there was a finite number of offers, and we would create a years of service and critical skills screening process to make sure that management did not lose control of the process.

We had looked at the other cases and thought that would be important for the way in which we executed it, along with the points made by Defense.

Mr. CONTE. If I could, Madam Chair, one of the things we in DOD feel is extremely important is to have this continuous process and not have a window of opportunity either to all comers or for a limited period of time, 15 or 30 days, which creates the hysteria, which gets back to CIA's point.

It has to be something that is offered and targeted and used by management as they approach the different parts of the organization that they want to realign and downsize.

Ms. NORTON. I appreciate your answers. You have made me understand what turns out to be the major difference, I suppose, between the Post Office and the approach that is contemplated, I think, now throughout the government.

Mr. Haver, what you said about early notice though, reinforces the sense that I think came initially from Mrs. Byrne. Traditionally with the short time frame that we are working under now, these agencies should hustle and educate even if in some it raises the level of anxiety because anxiety will be much greater if they rush into this process without sufficient preparation of the kind you prescribe.

Let me ask you about this matter of contracting out and how you relate it, if at all. What is done by your agency by contracted employees and what is done by government employees?

Mr. CONTE. Okay. I will try that. The downsizing has to be driven not by just getting numbers of people off the rolls to cut the budgets. I do not believe that has been the intent, and certainly it has not been the case with DOD. The downsizing is driven by force structure changes and the desire and the recognition that our budgets are not going to go up. They are going to come down, and we have to shed excess infrastructure and support costs.

So the Department of Defense has been looking for a number of years and continues to look at those support functions. We look to see whether we can reengineer them, redesign them, realign them within house or whether or not those functions might be more economically provided by contracting out.

There are a number of initiatives that we have underway. I will point to one that we are looking at: travel. Some 1.7 million travel vouchers are processed each year, and there are 4,000 DOD employees who type orders, process orders, or process vouchers when travel is completed.

We are doing two things in that area. We are looking at how we might reengineer, simplify, and automate that process. We are also looking to see whether or not there might be a way for travel voucher processing to be provided by an outside contractor who could do it and might already have those processes.

And if it is cheaper, more cost effective, and as efficient to do it with contracting, we would look favorably upon and attempt to do that.

What you will see possibly is an increase in contracting, and I think you said earlier that you would be looking to see whether contracting increases. You could very well and probably will see an increase in contracting, but it should be tied only to those specific processes and business practices that are more economical and cost effective to do it that way. It should not be done, and we in DOD do not intend to do it, just to reduce the number of civilian employees. It has to be driven by the business reengineering, realignment, or restructuring of the way we do our business, rather than just trying to drive down the number of civilian employees.

Ms. NORTON. Before we go to Mr. Haver, I understand what should be the process of looking to see if a contractor can do something more efficiently for less cost and at least as effectively. I really am talking here about a process whereby we are saying to people we are going to buy you out and some of you are going to go, almost because of anxiety, because we are afraid if you do not go now, you might be targeted. We are going to buy you out, and in this process, are we saying anything comparable, recognizing the differences between the two situations, to contractors, or are they part of this process at all? Are the support services being looked at?

Sometimes they are support services; sometimes they are other kinds of services. Are they being scrutinized at the same time we are looking at the government work force, or are they aside and to be done later or to be done differently?

Mr. Conte, I would like to hear your response on that.

Mr. CONTE. Yes, they are being looked at, but they are being looked at in the same way we are looking at our civilian draw-downs. We are looking at the functions that are performed. We are looking to see whether those functions currently contracted out, need to be performed at all. If they are determined unnecessary we would terminate, down-size, or reduce those contracts. This would affect contract employees the same way it would affect our in-house employees.

The reduction of civilians is not being driven by getting down to a number. It is being driven by budget restraint, and that budget can either go to civilians or to contractors. The way you reduce the budget requirements is to reduce the functional requirements or find a better way to provide the service, whether that is contracting or in house.

Ms. NORTON. Mr. Haver.

Mr. HAVER. What I would add is that I made mention of it in my opening remarks. We have been trying to incorporate not only this downsizing our work force, but at the same time the total quality management approach, and we have been using that to examine all of the various services performed inside the community both by employees of the various agencies, as well as those provided by outside contractors, and in fact, have been reducing that outside contract support activity actually at a higher rate in some agencies than draw-down in the personnel.

I could not agree more with Mr. Conte. The real issue is the budget constraint we are under, trying to keep a balanced work force inside of that, and in doing so, clearly elimination or drawing back on outside services provided by contractors is definitely part of that scheme.

Ms. NORTON. I appreciate what both of you had to say on this. I would say that I think this entire process would have been better conceptualized for the other agencies, indeed, would have been better articulated by all if, in fact, we knew that both were a part of the same process.

I recognize that they have different systems and work differently, but there has been discussion of the shadow work force. We know that there was extraordinary growth over the past decade. We know that the kind of efficiency studies that should be done are not done with respect to that work force, and I think that the administration has missed an important point not by not recognizing this. They have talked about contracting out. They are the ones that early on in the administration brought it up, but by not making it clear enough, I think, to the agencies that you are now looking at reductions and the reductions have two heads, and one head is the in-house civil service head and the other head is the part that is not controlled by the civil service, and one is just as important as the other.

It would have been, it seems to me, better. I do not understand the other agencies to always understand that they are doing that, nor do I believe they are all doing that at the same time. I know so much of the work of Department of Defense is contracted out that they almost have to do it. If you had any process in place at all in order to even get rid of your civil service work force. But at this hearing I am not convinced that the administration has made

contracting out part of the process we are going through now, and I think there could be some lopsided results that nobody intends because the administration certainly intends to get rid of excess contracting out authority and personnel, as well.

I have only one more question and that is whether your two agencies communicated to learn of each other's experiences during this process, and whether you have communicated with the other agencies that have gone through this process beyond yourselves, and finally, what level, if any, of communication you have had with agencies which have not yet gone through this process?

Mr. HAVER. Well, we are intertwined. The National Security Agency is, of course, a Defense agency, and therefore, Mr. Conte has a lot to say to them, and of course, through the way in which the executive order stipulates the authorities of Mr. Woolsey, the DCI, NSA is also part of the intelligence community.

So our connection particularly through NSA and the Defense agencies has been extensive, and the Defense agencies were instrumental in helping CIA shape their program when they were able to institute it.

In fact, ma'am, I would say that was one of the things that was important. The act that allowed CIA to execute its incentivized early-out program, they basically executed that just two days after it was passed into law. They did that because they were well prepared, and they were well prepared because they had worked extensively with the Defense agencies before it arrived, including town meetings and information sessions and all the rest of the lessons that had been learned, and they certainly used many of the same procedures to try to come up with a scheme to target the people and the skills that were important for them to single out in their first phase, and also the lessons on how to continue this.

I also want to identify myself with Mr. Conte's remarks about this has to be seen as a process that takes place over an extended period of time and that changes and evolves to fit the management scheme.

But the connections have been quite close.

Sir?

Mr. CONTE. Yes. I do not think I can add to that. It is very clear that they are part of the process. The National Security Agency's civilians are part of the Department of Defense civilian structure and operation.

Ms. NORTON. What about the agencies that are not funded yet because they have no authority yet?

Mr. HAVER. Civilian non-DOD agencies?

Ms. NORTON. Yes, non-DOD agencies, the kinds of agencies that preceded you this morning.

Mr. HAVER. Yes, I think there has been extensive dialogue with them, particularly with OPM, and the OPM proposed legislation is based very much on the DOD experience and the DOD national authorization bill that authorized Defense separation, et cetera.

Dr. SANDERS. Our staff has been all over town consulting with various agencies, IRS and Treasury, GSA, HHS, basically showing them how we have done it, and in fact, in many cases coming up with joint agreements for planning and other support services.

I might add NSA was, I think, the first organizational entity in DOD to use the separation incentives. So we have been working from the very beginning together with the intelligence community and within DOD and throughout government.

Ms. NORTON. That is very encouraging. Yes?

Mr. HAVER. And at the higher echelon, ma'am, for example, Admiral Studeman sits on the President's Management Council, and he and the DOD representative at those high level meetings have been outlining what our procedures have been, how it has been instituted, the failings that we ran across, the lessons learned, and also offering up our assistance as the other agencies start to implement these sorts of schemes.

Ms. NORTON. Thank you, Mr. Haver. I was going to say that is very encouraging. I know that if I were put in the position that agencies now have, most of them having never done buyouts so far as I know, the first thing I would do is make a beeline for one of you.

Dr. SANDERS. We are thinking about charging for our——

[Laughter.]

Mr. CONTE. In the interest of quality management, of course.

Ms. NORTON. That is free contracting out. We are all in the same government, and I hope the Congress is in the same government and understands that it ought to follow your lead and your precedent, and how extraordinarily unfair it would be to have allowed buyouts to have occurred for you and not for other agencies. It is absolutely indefensible to have done so, and I know you do not intend that, and we have to catch up with you.

I want to thank you for very, very useful testimony.

I want to announce that for the sake of C–SPAN only, who has put away some cameras, I am going to take a ten-minute break, and I am going to keep to ten minutes at their request, and then I am going to ask Panel No. 4 to come forward.

A ten-minute break, a ten-minute recess.

[Whereupon, a short recess was taken.]

Ms. NORTON. Our next panel consists of Archer Durham, Assistant Secretary for Human Resources and Administration of the Department of Energy; the Honorable George Munoz, Assistant Secretary for Management, Department of the Treasury; and Alan P. Balutis, Director for Budget Planning and Organization, Department of Commerce.

Mr. Durham, you may begin.

STATEMENT OF HON. ARCHER DURHAM, ASSISTANT SECRETARY FOR HUMAN RESOURCES AND ADMINISTRATION, DEPARTMENT OF ENERGY; ACCOMPANIED BY HON. GEORGE MUNOZ, ASSISTANT SECRETARY FOR MANAGEMENT, DEPARTMENT OF THE TREASURY; AND ALAN P. BALUTIS, DIRECTOR FOR BUDGET PLANNING AND ORGANIZATION, DEPARTMENT OF COMMERCE

Mr. DURHAM. Madam Chair, it is my pleasure to appear today in support of H.R. 3345, the Federal Work Force Restructuring Act of 1993. I appreciate the opportunity to share the Department of Energy's need for work force right-sizing and the importance of the

Federal Work Force Restructuring Act of 1993 to accomplishing right-sizing in a timely and effective manner.

Prior to the collapse of the Soviet Union, the department's primary mission involved activities associated with defense-based Cold War energy programs. We are currently involved in a major shift of priorities with a focus on environmental clean-up, improved energy conservation, development of alternative energy sources, technology transfer, and increased safety and health at Department of Energy sites.

We are beginning the process of implementing recommendations of the administration's national performance review. This includes initiatives such as streamlining, reducing our administrative directives and functions, reducing the ratio of supervisors and managers to employees, and reducing our total work force in areas impacted by changes in missions and priorities. The important changes need to be initiated now in order to make the Department of Energy more cost-effective and responsive to our customers.

The Department of Energy has a disproportionately high percentage of supervisors to employees. Our current ratio is approximately one supervisor to 4.8 employees. Although there are some understandable reasons for this, we are not satisfied with it, and Secretary O'Leary is strongly committed to improving the ratio.

It is much lower than the government-wide average of one supervisor to seven employees, and substantially below the goal of one supervisor to 15 employees established by the President's national performance review plan.

Although we have a long way to go in improving this ratio, we know that approximately 40 percent of employees who are eligible for retirement in the department are supervisors and managers. Thus, reductions in this pool of employees is critical to our overall success in flattening and streamlining departmental organization structures and associated managerial hierarchies.

The Department of Energy has approximately 5,080 employees, which represents 25 percent of our total work force, that are eligible for either optional or early retirement, and based on the DOD experience, we assume that a major share of our needed reductions can be achieved by utilizing the flexibility in the incentives that would be provided for in H.R. 3345.

Reductions are most needed at the mid-level supervisor and manager level in Grades 14 and 15, as well as in certain departmental functions and certain departmental occupations.

It is also important to recognize that our manager/supervisor to employee ratio, which is one to 4.8, is one that we are not very proud of. It is one of the lowest in the federal government, that averages one to seven. National performance review targets are one to 15, and we have got a long, long way to go to correct that discrepancy.

Approximately 40 percent of our retirement eligible people, some 2,000 folks, are supervisors and managers. So clearly we have an opportunity if this legislation is passed to do something about that ratio.

Buyout authority will allow us to target this pool of employees in our efforts to flatten the organization and to streamline the department.

The department faces serious skill mix problems both now and also in the future, and because of the major changes in priorities, the department work force is experiencing skills obsolescence in areas such as the defense and nuclear energy programs that were the mainstays of the department in the past. We have a shortage of necessary skills in our expanded mission areas, such as environmental clean-up and waste disposal, energy efficiency, and environmental health and safety.

Buyout legislation is critical to giving the department the flexibility we need to step up in these critical areas, to match these skills with our new missions and new priorities.

Low attrition rates are an important impediment to work force restructuring. DOE, like other federal agencies, faces the daunting task for trying to do a better job in regard to increasing our attrition profile. In the past we were five to seven percent. Here recently we were below three percent. That does not give us the flexibility to do the job we want to do in regard to work force restructuring.

The importance of avoiding reductions in force is obvious. We want a strategy that will allow us to avoid that, to avoid the costs in dollars, employee morale, and program disruption that a RIF would bring about that would hamper us in handling our work force right sizing problem.

Agencies have limited tools and options in the right-sizing process. We do not have too many options that we can look to. People that leave the federal government normally would leave if they had the opportunity to go to other employment. That has not been the case because of the economy. You cannot even go to other agencies. So our options are limited, and we need what this particular legislation would provide us.

The importance of buyouts in promoting work force diversity is also key and critical. The department has not historically achieved a diverse work force. The Secretary's commitment to improving the diversity of the Department of Energy has already resulted in improvements in the hiring of women and minorities since her appointment.

Buyouts would enable us to preserve the progress that we have made in 1993 and make significant improvements in the years ahead. Due to the limited hiring opportunities, our progress in 1993 did not have a major impact on our overall diversity statistics, especially in the mid and senior level management ranks.

Low attrition and use of reduction in force would adversely impact particularly on those most recently hired. If implemented, the buyout authority will give the department greater opportunity to diversify our work force in the future.

The DOE is very supportive of the President's Work Force Restructuring Act of 1993 and urges timely action and support of passage. I testified concerning this legislation October 19th, 1993, before the Subcommittee on Compensation and Employee Benefits. I am here again today because this legislation is becoming more and more important to our success in reinventing and right-sizing the Department of Energy.

The earlier the authority can be made available, the greater will be its benefit as a constructive tool in the restructuring and downsizing of our work force.

That concludes my remarks.

[The prepared statement of Mr. Durham follows:]

PREPARED STATEMENT OF ARCHER DURHAM, ASSISTANT SECRETARY FOR HUMAN RESOURCES AND ADMINISTRATION, DEPARTMENT OF ENERGY

Madam Chair, Mr. Chairman, and Members of the Subcommittees: It is my pleasure to appear today in support of H.R. 3345, the "Federal Work Force Restructuring Act of 1993." I appreciate the opportunity to share the Department of Energy's need for work force rightsizing and the importance of the "Federal Work Force Restructuring Act of 1993" to accomplishing rightsizing in a timely and effective manner.

CHANGING MISSIONS AND PROGRAM PRIORITIES AT THE DEPARTMENT

Prior to the collapse of the Soviet Union, the Department's primary mission involved activities associated with defense-based cold war energy programs. We are currently involved in a major shift of priorities with a focus on environmental clean-up, improved energy conservation, development of alternative energy sources, technology transfer, and increased safety and health at Department of Energy sites.

BUYOUTS WOULD SUPPORT IMPLEMENTATION OF NATIONAL PERFORMANCE REVIEW GOALS

We are beginning the process of implementing recommendations of the Administration's National Performance Review. This includes initiatives such as streamlining, reducing our administrative directives and functions, reducing the ratio of supervisors and managers to employees, and reducing our total work force in areas impacted by changes in missions and priorities. These important changes need to be initiated now in order to make the Department of Energy more cost-effective and responsive to our customers.

IMPROVEMENT NEEDED IN SUPERVISOR TO EMPLOYEE RATIO

The Department of Energy has a disproportionately high percentage of supervisors to employees—our current ratio is approximately 1 supervisor to 4.8 employees. Although there are some understandable reasons for this, we are not satisfied with it and Secretary O'Leary is strongly committed to improving the ratio. It is much lower than the governmentwide average of one supervisor to seven employees and substantially below the goal of 1 supervisor to 15 employees established by the President's National Performance Review plan. Although we have a long way to go in improving this ratio, we know that approximately 40 percent of employees who are eligible for retirement in the Department are supervisors and managers. Thus, reductions in this pool of employees is critical to our overall success in flattening and streamlining Departmental organization structures and associated managerial hierarchies.

DEPARTMENTAL DEMOGRAPHICS FAVOR BUYOUT UTILIZATION

The Department of Energy now has approximately 5,080 employees or 25% of its total work force eligible for either optional or early retirement. In drawing upon the experience of the Department of Defense in the administration of its "buy-out" program, we assume that a major share of our needed work force reductions can be achieved by utilizing the flexibilities and incentives in H.R. 3345 to encourage retirements. Reductions are most needed in the mid-level supervisory and managerial ranks (grades 14–15), as well as certain Departmental organizations and occupations.

THE DEPARTMENT FACES SERIOUS SKILLS MIX PROBLEMS NOW AND IN THE FUTURE

Because of the major changes in priorities and business methodology that we are undergoing, the Department's work force is experiencing skills obsolescence in areas such as the defense and nuclear energy programs that were the mainstays of the Department's past mission. At the same time, we have a shortage of necessary skills in our expanding mission areas such as environmental clean-up and waste disposal. Thus, buy-out legislation is critical to giving the Department the flexibility to "staff-

up" the federal employee work force with the skills to match our new missions and program priorities.

LOW ATTRITION RATES ARE AN IMPEDIMENT TO WORK FORCE RESTRUCTURING

The Department of Energy, like many other federal agencies, faces the daunting and unenviable challenge of achieving work force reductions at the same time we are restructuring our work force and streamlining operations. Our ability to do these things requires increases in attrition to allow for retraining and hiring for the right skills, at the right time, and in the right place.

In previous years, we could count on attrition rates of 5–7% that provided modest flexibility in staff reductions and restructuring, as well as facilitating changes in mission. However, we are currently trying to make major changes in our work force with attrition rate of less than 3 percent. The availability of buy-out authority will significantly improve the Department's attrition situation, as well as support the associated benefits of work force restructuring.

THE IMPORTANCE OF AVOIDING REDUCTIONS-IN-FORCE

Buy-out authority is a key ingredient to a successful reduction-in-force avoidance strategy. In the early 1980s the federal sector used reduction-in-force widely to produce large reductions in the work force. The costs, both in dollars and employee morale, need to be remembered so that we do not repeat them. The high cost of unemployment insurance and the full cost of severance pay along with the cost of continuing to pay high level workers to perform lower level tasks are the easiest to identify, but we cannot ignore the more difficult to measure but very real costs associated with major disruptions in programs and operations, decreased service to the public and low morale.

AGENCIES HAVE LIMITED TOOLS AND OPTIONS TO USE IN RIGHTSIZING

Work force rightsizing and restructuring are governmentwide, nationwide, and long term issues. We do not have the luxury today of employees transferring to other government agencies or leaving for careers in the private sector. Alternative employment options are extremely limited. We need real and constructive tools to successfully accomplish our goals. This legislation would provide a major work force rightsizing and restructuring tool. The Department urges the Congress to provide agencies with authority to utilize buy-outs over a multi-year period consistent with the streamlining and work force reduction timeframes that have been established.

BUYOUTS AS A CENTRAL ELEMENT IN THE DEPARTMENT'S RIGHTSIZING STRATEGY

The Department of Energy has developed a Work Force Redeployment and Rightsizing Plan which includes the use of "buy-out" program.

Notwithstanding the central importance of buy-outs in our rightsizing strategy, we also plan to continue our current outplacement and retraining efforts, initiatives aimed at redeploying existing staff to high priority programs, and carefully targeted recruitment of technically excellent employees to critical skill areas.

THE IMPORTANCE OF BUYOUTS IN PROMOTING WORK FORCE DIVERSITY

The Department has historically achieved a diverse work force. However, the Secretary's commitment to improving the diversity of the Department of Energy has already resulted in improvements in the hiring of women and minorities since her appointment. Buy-outs will enable us to preserve the progress we have made in Fiscal Year 1993, whereas continued low attrition rates and/or a reduction-in-force would adversely impact diversity, particularly on those most recently hired.

Our Fiscal Year 1993 hiring statistics indicate that minorities comprised approximately 37 percent of the new hires in comparison to their overall representation in the Department's work force of 21.3 percent. Moreover, 50 percent of the new hires were female in comparison to their overall representation in the Department's work force of 38.5 percent. Unfortunately, due to limited hiring opportunities, our progress in Fiscal Year 1993 did not have a major impact on our overall diversity statistics, especially in the mid and senior level manager ranks. If implemented, the buy-out authority will give the Department greater opportunity to diversify our work force.

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CONCLUSION

The Department of Energy is very supportive of the President's "Work Force Restructuring Act of 1993" and urges the Committee to take timely action in support of its passage. I testified concerning this legislation on October 19, 1993 for the Subcommittee on Compensation and Employee Benefits and I am here again today because this legislation is becoming more and more important to our success in reinventing and rightsizing the Department of Energy. The earlier the authority can be made available to agencies, the greater will be its benefit as a constructive tool in the restructuring and downsizing of our work forces.

Ms. NORTON. Thank you.

Mr. Muñoz.

Mr. MUÑOZ. Madam Chair, good afternoon. My name is George Muñoz, Assistant Secretary for Management and Chief Financial Officer at the Department of Treasury.

At our department, we have had past experience with buyouts and past experience with RIFs. So I am very happy to be testifying on the importance of having legislation that permits buyouts when they make sense. Use of buyouts will permit our Department and all of the Federal government to better manage our expenses in a time of tight budgets and reinvention of government to provide better services.

Secretary Bentsen is committed to a reduction of the number of Treasury employees, and we are happy to report that Treasury is living within the downsizing targets of the President. But it is becoming tougher to do so. We have utilized management tools such as streamlining, consolidations, and productivity improvements to cope with the tighter budgets for deficit reduction in the face of increasing workloads and demands for change.

Of major importance to our Department that we would like to point out is the new labor-management relations trend. Treasury provides an existing example of this cooperation. I sit on the National Partnership Council, and the IRS and its union are an example of cooperative work when it comes to the questions of RIFs or any kinds of adjustments to its work force.

It is because of Treasury's example at the IRS that there was a motivation for the President and Vice President to move on the creation of the National Partnership Council, which I think is a positive example of working with these kinds of issues.

Given our prior experience with both buyouts and RIFs, we can assure you that involuntary separations are not the way to go. Because of the "bumping rights" of employees with seniority, they are costly; they are managerially difficult, disruptive, and adversely impact younger workers (many of whom are recently hired women and minorities) who are often the lower-paid-core workers serving the vital front-line functions: providing service to customers.

An example of where we saw that we could avoid this was in one of our bureaus, the Office of Thrift Supervision. Buyout legislation was authorized for that bureau, and it was used to target management and staff positions, and we used buyouts to protect the critical examiner positions in the field and reduced the number of employees subject to RIF.

Buyouts can be "targeted" and, therefore, give us the control we need to ensure what the future workforce will look like. Buyouts will be offered to employees working in organizations that are

being downsized or that need streamlining or re-engineering to improve the services or products that they deliver.

One of the key recommendations of Vice President Gore's National Performance Review report is that organizations should be flattened and our employees empowered. In order to do this, we believe that buyouts are the tool to work toward this end.

By crafting our buyout proposals, we will be able to approach a de-layering of the bureaucracy in a manner that is more strategic and targeted for effectiveness.

Treasury has developed a computer software program that allows us to run simulations on the cost impact of buyouts under different scenarios. This model illustrates the costs associated with departures of an employee based on years of service, retirement plan, and factors included in the proposed legislation. As this committee had hearings late last fall, we developed this software program to determine when it would be best to offer the buyouts.

We still have the program and would be happy to provide a copy for this Committee's records.

The earlier in the fiscal year a buyout program can be implemented, the greater the savings that can be realized in that year's budget. At some point, however, during the fiscal year, the savings turn to increased costs. Early Congressional action is needed.

Fifteen percent of all Treasury employees are eligible for regular or early retirement. Nearly 60 percent of our senior executive service members can retire.

Buyouts are no longer cost effective during Fiscal Year 1994 for the average Treasury employee who would likely be interested in taking a buyout—a 50 year old GS–11, Step 5, with 25 years of service. The break-even point for salaries to cover buyout costs was around January 20th for that level employee. Buyouts, however, are still cost effective this year for certain higher-graded employees, whose salaries would cover the buyout further in the fiscal year.

The expectations are that the buyout program has caused senior employees to postpone retirement decisions. Normal employee turnover rates have declined.

Bureaus which used to have average attrition rates between three and five percent, now have attrition rates between one and two percent.

In closing, I think it makes for good management, good government, and good economics for the departments to be given the authority included in this buyout legislation.

Thank you.

[The prepared statement of Mr. Muñoz follows:]

PREPARED STATEMENT OF GEORGE MUÑOZ, ASSISTANT SECRETARY FOR MANAGEMENT, DEPARTMENT OF THE TREASURY

Good morning. I am George Muñoz, Assistant Secretary for Management and Chief Financial Officer at the Department of the Treasury.

At our Department we have had past experience with buyouts and past experience with RIFs, or involuntary separations, so I am very happy to be testifying on the importance of having legislation that permits buyouts when they make sense. Use of buyouts will permit our Department and all of the Federal government to better manage our expenses in a time of tight budgets and reinvention of government to provide better services.

Secretary Bentsen is committed to a reduction of the number of Treasury employees, and we are happy to report that Treasury is living within the downsizing targets of the President. But it is becoming tougher to do so. We have utilized management tools such as streamlining, consolidations, and productivity improvements to cope with the tighter budgets for deficit reduction in the face of increasing workloads and demands for change.

Of major importance to our Department are our labor-management relations. Treasury provides an existing Federal example of labor-management cooperation. I sit on the President's National Partnership Council whose aim is to motivate labor and management throughout Government to improve public service while reducing the number of employees. The close working relationship between the Internal Revenue Service and the National Treasury Employees Union in development reorganization plans enabled management to look to "alternatives" other than RIFs for downsizing some of the IRS offices.

In one of our bureaus, the Office of Thrift Supervision, buyouts were used to target management and staff positions. These buyouts protected the critical examiner positions in the field and reduced the number of employees subject to a RIF.

Given our prior experience with both buyouts and RIFs, we can assure you that involuntary separations are NOT the way to go. Because of the "bumping rights" of employees with seniority, they are costly, mangerially difficult, disruptive, and adversely impact younger workers (many of whom are recently hired women and minorities) who are often the lower-paid-core workers serving in vital front-line functions providing service to customers.

Buyouts can be "targeted" and therefore give us the control we need to ensure what the future workforce will look like. Buyouts will be offered to employees working in organizations that are being downsized or that need streamlining or re-engineering to improve the services or products that they deliver.

One of the key recommendations of Vice President Gore's National Performance Review report is that organizations should be flattened and our employees empowered—that decision-making, especially customer service, not be bogged down with layers of senior management. It so happens that in the pool of likely candidates that would take advantage of the buyouts are those in the senior-management layers. By crafting our buyout proposals, we will be able to approach a delayering of the bureaucracy in a manner that is more strategic and targeted for effectiveness.

Treasury has developed a computer software program that allows us to run simulations on the cost impact of buyouts under different scenarios. This model illustrates the cost associated with the departure of an employee based on years of service, retirement plan, and factors included in the proposed legislation. This software package has been shared with other departments. Thus, we can ensure that buyouts in fact produce the savings that we seek. We would be happy to provide a copy of the program for the record.

The earlier in the fiscal year a buy-out program can be implemented, the greater the savings that can be realized in that year's budget. At some point during a fiscal year, the savings turn to increased costs. Early Congressional action is needed.

Fifteen percent of all Treasury employees are eligible for regular or early retirement. Nearly 60 percent of our senior executive service members can retire.

Buyouts are no longer cost effective during Fiscal Year 1994 for the "average" Treasury employee who would likely be interested in taking a buyout—a 50 year old, GS 11, step 5, with 25 years of service. The break-even point for salaries to cover buyout costs was around January 20th. Buyouts, however, are still cost effective this year for certain higher-graded employees, whose salaries would cover the buyout further in the fiscal year.

The expectation that there may be a buy-out program has caused senior employees to postpone retirement decisions. Normal employee turnover rates have declined. Bureaus which used to have average attrition rates between 3 and 5 percent, now have attrition rates between 1 and 2 percent.

In closing, I think it makes for good management, good government, and good economics for the departments to be given the authority included in this buyout legislation.

Ms. NORTON. Thank you very much.

Mr. Balutis.

Mr. BALUTIS. Madam Chairwoman, Mr. Chairman, my name is Alan Balutis. I am the Director for Budget, Planning and Organization at the Department of Commerce. I would ask that my full statement be inserted into the record and that I be allowed to briefly summarize some of my remarks.

Ms. NORTON. So ordered.

Mr. BALUTIS. Thank you.

I appreciate the opportunity to appear before you to discuss the employee buyout authority, and I join my colleagues and others who have appeared today in urging that Congress move swiftly to enact this invaluable tool for right-sizing federal agencies.

The National Performance Review challenged us all to change, to change the way we do business, to change the way we deliver services to our customers, to reexamine antiquated field structures, in short, to change the old ways of operating in order to insure that we are meeting the needs of the American people.

Traditionally, when government has become too big, it has usually opted to down-size through the use of standard reductions in force, the dreaded practice of RIFing, or it has relied on attrition to meet its streamlining goals.

The problem is that neither one of these allows management to manage the process. To paraphrase a recent article in Fortune Magazine, these are a form of bureaucratic anorexia: you can get thin, but it is no way to get healthy.

RIF rules are such that they attempt to cut the ranks, quote, unquote, fairly by basically using the rule last hired, first fired. But they just cushion the blow for mid-level employees, the long-term employees in the GM–13 through 15 and at the senior executive levels, the same line supervisors and managers that the National Performance Review suggested should be cut in order to flatten organizational charts throughout the government.

The use of attrition to meet staffing targets is often more desirable than the use of reductions-in-force. Attrition does not carry with it the attendant morale problems, and it is usually less disruptive to the work force than are RIFs. But all of our available information also indicates that the use of attrition alone will not help us meet the reduced staffing requirements laid out by the Office of Management and Budget and the National Performance Review.

First of all, one of the groups that we wish to target—managers, supervisors, senior executives—have low attrition rates. The Office of Personnel Management reports that in 1992 the government-wide attrition rate for people at the GS–14 level was only three percent, while for GS–3's, it was 11 percent.

Second, the group that would be most affected in a RIF, and whose attrition rates are higher, are often the lower graded employees—a younger and more diverse group.

Therefore, I think we should look not only at what our colleagues in other agencies, at the Department of Defense and the Postal Service and the General Accounting Office, have done, but also at what the private sector has done. We should look at the whole range of options and ideas that exist to streamline and reengineer our way of doing business, and we should offer management the full panoply of tools to guide that process.

That is what we have tried to do at Commerce. When the President announced the National Performance Review, the so-called NPR, the Commerce Department launched its own extensive internal reinvention effort, the Commerce Performance Review, CPR.

No pun intended about trying to breathe life into a moribund, bureaucratic body.

But we asked every one of our 36,000 employees to take an active role in that process and actively solicited their ideas through a wide range of mechanisms. We held more than 40 focus group meetings throughout the country and went to employees electronically and in correspondence from the Secretary and produced over 8,000 reinvention ideas.

We have launched a series of five reinvention laboratories that are experimenting with new ways of doing business through the use of automated information technology, electronic commerce, reductions in burdensome rules, and in new notions like flexible work place.

These labs, and in fact, the whole Department, have asked the same question that many private sector companies have asked: why are we working like this, and can we do it better?

In one of our initial reengineering efforts, we redesigned the grants review process in one of our organizations, the Economic Development Administration. As a result, we cut a process that normally used to take nine to 12 months down to eight to ten weeks.

But the success of much of our efforts will depend on whether we can manage change strategically to meet our goals. Our plan is to approach streamlining as part of an overall strategy. That will include a comprehensive review of our field structure, the use of business process reengineering, ending headquarters micro-management of administrative processes, and, Madam Chairwoman, looking at our support services contracts, as well, just to name a few.

Our overall plan will be developed in conjunction with our employees and with the unions. Our union people have a lot of ideas to contribute to the process, especially about reducing layers of management, and we will work through our labor-management partnership council.

It will also recognize our current situation, the fact that we have been conscious of administrative overhead and have taken steps over the years to cut back on overhead, develop staffing standards for administrative support areas, consolidate systems, and build support centers in the field to service our employees outside Washington.

As a result of that, in all of the areas noted by the National Performance Review reports—personnel, procurement, budget, and so on—we are below and, in some cases, well below the government-wide average. One area where we are not, managers, supervisors, and senior executives, is one we will target in our right-sizing plan.

Clearly, voluntary separation incentive payments or buyouts would give us an effective tool to manage change. Those need to be used in concert with other human resources programs, internal/external placement assistance, training and retraining programs, and so on. With those, I think they will enable us to meet the goals of the National Performance Review.

But I would like to stress that I think our goal, and I think we need to remind ourselves of that, is to reinvent and redesign government. Our goal is not to get rid of employees. One thing that I think is crucial in this discussion and in this effort is that managers and executives in the executive branch and members of Con-

gress never talk about work force cuts like these solely in economic terms. That is a little bit like going to a funeral and reading a statement to the widow that her husband's death, while regrettable, was actuarially necessary to make room on the planet for other people.

We at the Commerce Department support this legislation and urge Congress to move swiftly to enact it so that we may take advantage of this authority during this fiscal year. I would be pleased to try to answer any questions that you may have.

Thank you again.

[The prepared statement of Mr. Balutis follows:]

PREPARED STATEMENT OF ALAN P. BALUTIS, DIRECTOR FOR BUDGET, PLANNING AND ORGANIZATION, DEPARTMENT OF COMMERCE

Mr. Chairman/Madam Chairwoman, thank you for inviting me here today to discuss how employee buyout authority would help the Department of Commerce to better manage the changes taking place within our agency, while at the same time meeting the requirements of the National Performance Review. My Department would urge that Congress move swiftly to enact this invaluable tool for "rightsizing" Federal agencies.

The National Performance Review challenged us all to change. To change the way we do business, to change the way we deliver services to our customers—in short to change the old ways of operating in order to ensure that we are effectively and efficiently meeting the needs of the American people.

In many ways, the Federal government is finally beginning to catch-up with the private sector, which has realized that the old ways of doing business no longer work. As the Vice President's report on Reinventing Government plainly stated "the goal should not be just to weed the garden, but to keep the garden free of weeds." That is one reason we support the strategic use of buyout authority.

Let me discuss the other reasons we support it.

Traditionally, when government has decided that it has become too big it has usually opted to downsize through the use of standard reductions-in-force—the dreaded practice of RIF—or it has relied on attrition to meet the needs of its streamlining goals.

The problem is that both of these downsizing tools do not allow management to manage the process. RIF rules are such that they attempt to cut the ranks "fairly" by basically using the rule "last hired first fired." RIFs just "cushion the blow" for long-term employees—those GS employees occupying grades 13–15—the same line supervisors and managers that the National Performance Review suggested should be cut in order to flatten organizational charts throughout the government.

On the other hand, the use of attrition to meet staffing targets is often more desirable than the use of reductions-in-force.

Relying on attrition does not carry with it the attendant morale problems, and usually is less disruptive to the workforce than are RIFs. But all available information also indicates that the use of attrition alone will not help us meet the reduced staffing requirements laid-out by the Office of Management and Budget. Why? For two very important reasons.

First, one of the groups that we wish to target—mid-level managers and supervisors—have low attrition rates. If we are to meet the recommendation of the National Performance Review, that the scope of supervisory control be increased to one manager for 15 employees, instead of the current 1 to 7 ratio, this group of GS 13–15 employees will need to be cut back dramatically. For example, the Office of Personnel Management reports that in 1992, the governmentwide attrition rate for GS–14's was only 3 percent, while for GS–3's it was 11 percent.

Second, the group that would be most affected in a RIF and whose attrition rates are higher are ofter the lower graded employees—a younger and more diverse group.

Therefore, we should do what the private sector has done. We should look at the whole range of options and ideas out there to streamline and reengineer our ways of doing business. That's what we are doing at Commerce. When the President announced the National Performance Review, the Commerce Department launched its own massive internal reinvention program. We took the idea of reinvention very seriously.

In concert with the NPR, we created the Commerce Performance Review. We asked every one of our approximately 36,000 employees to take an active role. We received over 8,000 reinvention ideas. We also launched five "Reinvention Laboratories." These labs, our centers of reinvention, are experimenting with new ways of doing business through the use of information technology, reduction in burdensome administrative rules, and cutting-edge human resources ideas like the flexible workplace.

These labs, and in fact the whole department, have asked the same question that many private sector companies have asked "Why are we working like this and can we be doing it better?"

But the success of much of our efforts will depend on whether we can manage change strategically to meet our goals.

The private sector has already learned this and has begun to use many new tools to restructure their processes and create more efficiencies. One of the tools that they have used, business process reengineering, has led companies like GTE, Bell Atlantic, Union Carbide, and Hallmark Cards to find new ways to do business—in short they have learned to work better and reduce costs. You may ask what it is that the Federal government can learn from these private sector companies? Each one of those companies faced what the federal government—and the Commerce Department—is now facing, a fundamental shift in its environment.

The Department of Commerce is focusing on five very important areas. Our mission is to open and expand foreign markets, increase U.S. exports, enhance U.S. technological competitiveness, promote the stewardship of the global environment, provide development assistance to distressed communities and minority businesses, and continue to work to create a more responsive and efficient Department.

To do all of these things will necessitate a workforce that is able to meet our changing needs. That is why we support the buyout authority.

Our plan at the Commerce Department is to approach streamlining as part of our overall strategy. That strategy includes a comprehensive review of our field structure, the use of business process reengineering, and headquarters micromanagement of administrative processing, just to name a few. Our overall plan itself will be developed in conjunction with our employees and with the unions, through our Labor/Management Partnership Council.

It will also recognize our current situation—we have been conscious of administrative overhead and have taken steps over the past years to reduce overhead, develop staffing standards for administrative support areas, consolidate systems and develop field support centers to serve employees in the field. In fact, in all the areas noted by the NPR reports—personnel, procurement, budget, etc., we are below the governmentwide average. One area we aren't—managers/supervisors—is one we'll target in our rightsizing plan.

A selective buyout program will help us to reduce middle management while at the same time allowing us to keep our front-line "service provider" employees. Voluntary separation incentives will also help us to target those organizations and programs, which due to the changing nature of our environment, may need to be downsized or cut back. As we have seen, relying on attrition or reductions-in-force would not allow us to approach streamlining strategically.

Clearly, Voluntary Separation Incentive Payments, or buyouts, would give us an effective tool to manage change. Used in concert with other human resource programs like internal or external placement assistance, training, and broader "early out" authorities, buyouts would help us to meet the goals of the National Performance Review.

We at the Commerce Department support this legislation and urge the Congress to move swiftly to enact it so that we may take advantage of this authority during this fiscal year. As we all know, many employees who are eligible for regular and early retirement are waiting, reducing normal attrition, and putting us further behind our goal of rightsizing Federal agencies. As the report of the National Performance Review clearly stated, change is not easy—but the use of buyout authority will give us at least one more tool to help us meet our goals.

Ms. NORTON. Thank you, Mr. Balutis.

Could I ask the three of you to look at this process with a different cut since we have already heard from some agencies before you? I would like to know whether or how you think through the effect of buyouts on your customer service in the field, how you make up for it, whether it is going to be left intact, and then what

you would anticipate if you had to use RIFs with respect to its effect on customer service in the field?

Mr. BALUTIS. Well, I will take a stab at that. I think, as I said, used in conjunction with other tools, this needs to be done in a way that has no impact on our service to customers in the field. Again, our experience has been very limited, so I will return again to the one example I noted earlier; when we looked at the way in which we reviewed grants in the Economic Development Administration. Clearly one of our goals is to get money out quickly to deserving communities that are suffering economic dislocation or have suffered as a result of floods, earthquakes, or other natural disasters.

We found that we had in place a process that involved more than 100 steps, all of which occurred sequentially; that reviews that needed to be conducted for environmental, financial or legal issues were conducted at three levels: in the field, in the bureau headquarters, and then again in the Office of the Secretary.

We have been able to re-engineer and redesign that process to reduce those steps dramatically; to increase the speed with which money gets out the door; to insure that the process and the reviews are conducted with the same degree of integrity as in the past.

So we think we have been able to improve service delivery to our customers in the field, and we have been able to do so in a way that will free up staff to be used for other important purposes within the department.

Mr. MUÑOZ. There clearly would be a difference in the kind of customer service that would be rendered by our department if we utilized buyouts versus RIFs or RIFs versus buyouts, but we would not do that. That is, if we did not have the buyout legislation, we would not target the same or we would not follow the same process and merely institute RIFs because we would know what kind of impact it would have, because we know the end result of a RIF and its bumping system and its total impact. It is a higher risk game.

For that reason, what we would merely do is use RIF as a cost saving device, period. Whereas buyouts would have that plus more, and it is the "plus more" that we would be after.

So last fall when this legislation did not go through and we were counting on it, our plans quickly shifted over to what areas can we—those that we were planning to target for buyouts, for example, would not be automatically targeted for RIFs even though the first question that came into our mind was: in what areas do we have programs that we can reduce or eliminate or consolidate or do those kinds of transactions that would save us money and would have better services?

So I would say to your question if, in fact, all we did was put a RIF where we would have put a buyout, it would definitely be a difference in service; that the RIF would be chaotic and would reduce the customer service that we render, but we would not do that. But the taxpayer would be denied an opportunity. It has a payroll that may be shrunk because of a RIF, but it does not have better services.

Mr. DURHAM. You may be aware Secretary O'Leary has been heavily involved in a quality program within the Department of Energy, and the centerpiece of that program is customer service, and the way that we have structured that is that it is universal,

and in that sense, in our judgment, buyout legislation would be transparent. It would not affect it in any way.

For example, as we rightsize, I would like to believe and focus towards our missions. Our new mission says we are going to be able to provide better customer service because we have the right people at the right place at the right time with the right skills.

In regard to the RIF, the RIF could be disruptive, which would have morale problems, which could also have an indirect impact on our customers in that we may not provide as good a service as we would if we had a more content work force.

So we really see this to be a plus, allowing us to free our people up to provide better customer service and to be transparent in the process.

Ms. NORTON. Mr. Durham, you testified that you were particularly concerned about your manager-employee ratio, one of the worst in the government. I have been concerned throughout this hearing at the unintended consequences of even the best processes, and the buyout is truly not immune from that possibility.

You did not get that ratio because anybody sat down and said, "Let us have one to four," or whatever was the number, and I would like to ask you how you got that ratio because if we succeed in eliminating some of the redundant management, unless we understand how it got that way, I do not see anything in place to keep it from getting that way again?

Having a little familiarity with the system, one suspects that there is some overgrading; that not all of these are truly managers although they have managerial grades; that some of it may have occurred because of the agency. So there is some unfairness because of limitations put on how you could promote or limitations that come out of freezes.

So I would be interested to know how you got there in the first place and how you are going to keep from getting there again.

Mr. DURHAM. Of course, I have only been at the department the last nine months or so, but it is my understanding that it is probably a product or a function of the classification system on the way that we reward people through the GS structure, by giving them higher grade levels, more money through performance and the like, as opposed to having alternatives.

And the long-term result of that is that you wind up with more people in supervisory positions because that is the only way that you can compensate them, by giving them titles, if you will, or putting them over large budgets or large groups of people.

One of the things that we intend to do within the Department of Energy, which is also, I might add, part of our strategic planning and quality process, is to change that paradigm, if you will and go to a teaming concept where we do not have to use the classification system that we are bound with today, that would drive what I believe is the point that you are getting at, and this, of course, would give us the flexibility not to have to reward people solely on the fact that they supervise someone. We could reward them on the basis of the contribution they could make through teaming processes, if you will.

So that is one of the things we are looking at very, very carefully, and if legislation is passed to free us from the classification proc-

ess, which is one of the recommendations in the NPR, we are going to use that to the fullest to make that happen.

Ms. NORTON. I would like to know the management-employee ratio of the other two agencies and your answers to the same question.

Mr. MUÑOZ. At Treasury, we have 11 bureaus, and some of them are purely manufacturing types, those that produce the coins and the dollar bills. Others are regulatory in nature, OTS, OCC, and others like the IRS have a combination of folks that are in a variety of areas, compliance and the like.

So our total average for the Treasury is one in seven, but within the bureaus we find quite a variety of range.

Treasury has the second largest law enforcement entity in federal government, and in those areas, normally the ratio is much smaller. For example, at ATF we have a one in four ratio. At the Internal Revenue Service the ratio is one in eight.

So the way we have been looking at it in terms of the intent of NPR, we can fulfill part of its intent, but we will not treat everybody the same because we know that they do things differently.

And I believe, Madam Chair, that you correctly pointed it out that, in part, one area of government that is being addressed is this whole classification and pay structure. When someone has been in government long enough to really provide good government service, good public service; however, they get stuck in a certain grade. They may inch up in grade and all of a sudden be classified as managerial supervisor when, in fact, they are not. You will find that to be the case in some law enforcement areas.

But Treasury-wide, it is one in seven.

Mr. JOHNSON. Mr. Balutis?

Mr. BALUTIS. At the Department of Commerce, we are a little shy of the one-to-seven ratio, and it varies throughout the department from a range of about one to three to up to one to ten.

I think you provided a list in your question of a number of the factors that have contributed to that. Some of the changes in the classification system, the use of pay banding, for example, in places where it has been used throughout the federal government, including at the National Institute of Standards and Technology, will contribute to some breakdown of this.

But I think I would argue that there are really no differences on the public sector side than there have been for years on the private sector side. Private sector organizations have gone through in the last few years the same kinds of efforts that we are starting to go through now to reduce middle management—to go through what they call de-massing. I think we have in the public sector grown up in that same haphazard, very hierarchical way, using antiquated structures and antiquated modes of operation, and keeping in place ways of doing businesses in field offices around the country that we no longer need given new technologies and new ways of delivering services.

So I think if we reengineer and redesign the ways in which we conduct our business and make use of some of those new technologies, we can create flatter structures. I think you are right that we need to work hard to keep those in place because unless we remain vigilant and burn them to the ground and salt the earth and

scatter them to the winds, these things will grow back in a few years.

Ms. NORTON. I have one more question. Mr. Balutis, you spoke about a salutary relationship you had with your union, and I would like to know what the other two agencies have done, if anything, in planning for this process with their employee organization?

Mr. DURHAM. We have worked hand in glove with our union with regard to all of our work force restructuring and work force planning since I have been in the agency, since last summer.

We are also involved with the partnership requirement that is part of the executive order from the President, and we are in the process of developing a partnership agreement with our union which, among other things, requires us to operate in consultation with them on such issues as personnel issues and right-sizing and work force restructuring.

I think the relationship has been good. We have used quality processes, facilitation. We have functioning partnership in place that are focusing initially on quality management and work force diversity.

Ms. NORTON. Mr. Muñoz?

Mr. MUÑOZ. We are fortunate at Treasury because we do have examples that have been highlighted by the National Partnership Council, and I sit on that council, and we are also fortunate because we do have Secretary Bentsen, who is very supportive. He knows that without employee participation in our mission, without active involvement of the employee groups, we are not going to get there.

So this is a high priority item for our management office, and like I said, we do have the example that worked within our own Treasury Department. So it is just a matter of expanding and duplicating that.

Ms. NORTON. Thank you, Mr. Muñoz.

Chairman McCloskey.

Mr. MCCLOSKEY. Thank you, Madam Chair.

Mr. Muñoz, if I could just ask you two or three questions. I guess one of the basic premises in all of this is that after 12 years of Reagan and Bush and particularly Mr. Reagan's pronounced anti-government, anti-bureaucratic frugality, every governmental agency and department, in essence, is overstaffed. That may or may not be the case, but currently I am interested in reports and magazines over the last five years of the shortfall between taxes paid and taxes owed is more than double, from some $50 billion to about $118 billion, and we all know that customer relations, so to speak, in the IRS area are among the most sensitive.

I understand the IRS has said there is going to be some restructuring, movement of management to these customer service positions, and so forth, but could you comment on that?

Could it be the case that after all is said and done, the IRS is going to need more personnel rather than doing a relatively moderate cut of what, 5,000, over three years?

Mr. MUÑOZ. Well, I think in discussing this sensitive issue, we have to realize that Treasury generates or collects 98 percent of all the federal government revenues, and so we want to make sure that we do not disrupt that collection process as was done in 1985.

I know that this Congress had to deal with a very tough situation where Treasury was not getting its work done in terms of responding to the tax filing returns on time, and there was a lot of chaos, and ever since then there was a clear direction from Congress and the White House that the function of the IRS, while it has to be monitored closely in terms of its growth, also cannot be subject to being politicized in trends such as maybe is being discussed now as to how it is going to be impacted on downsizing.

Realizing that is important, the second component we have to look at is that it, too, has to modernize itself. So one of the commitments that Congress has made to the Internal Revenue Service is something called the Tax Systems Modernization program, which this administration is very supportive of, and it is only through that that we can have an increasing workload on the Internal Revenue Service, but not necessarily an increasing workforce, and that is only through this modernization program.

We do believe, and we have plans submitted in our department; we do believe that if the IRS had to trim down its work force by roughly eight to ten percent as might be required under this 252,000 reduction, there would likely be impacts on revenue collection. We think that with the tax systems modernization in place, customer service, although this is probably the only place where the customers do not want to be our customers, but the customers would be getting good answers to their questions and also have sort of the one-stop shopping that they are demanding, which we are headed toward.

But your questions are very good ones. How can a very important collection agency that has been growing actually plan for cutbacks, and I think the answer is in Tax Systems Modernization, and that is what we are working toward right now.

Mr. McCLOSKEY. At some point you would say yes to the question that if you needed more staff once the program or programs are implemented or to maintain improvement in collection rates, you would do that, right?

Mr. MUÑOZ. Well, we would, sir, because I think that everybody believes——

Mr. McCLOSKEY. We are talking about billions of dollars here, yes.

Mr. MUÑOZ. Right. I think everybody does believe that the tax gap that you referred to, by letting it stay out there or grow, what it ends up doing is that those who do volunteer and pay their taxes voluntarily, the burden on them is unfair in terms of it being unequal. So in all cases, and part of our restructuring of the Internal Revenue Service is to send people from the headquarters and into the field and into the examining area where we can increase voluntary compliance.

Mr. McCLOSKEY. Could you comment on your experience in previous buyouts? Who were they offered to, and did it have any effect on diversity in the work force?

Mr. MUÑOZ. Well, we were fortunate enough to have buyout authority at the Office of the Thrift Supervision, and there it was successful. We targeted headquarters and managerial positions because we did not want to reduce field examiners at the Office of

Thrift Supervision. (About one third of those offered a buyout took advantage of it.)

At that time the main work really needed to be at the field, investigating the banks and the like. We exempted from the buyout the field examiners, and the results of that were quite successful, and even though we only got a third of those who were eligible to take advantage of it and we still needed to put a RIF in place, the RIF was much smaller than would have been otherwise required.

But the example in that instance is almost as pure as math, that is, since it is a bumping system, seniority system, it is the last ones that were hired that go out first.

Mr. MCCLOSKEY. Do you have any figures generally on women and minorities in that regard?

Mr. MUÑOZ. Well, again, in that specific case in OTS, it was not going to be truly representative of all Treasury-wide. In Treasury most of our workers are women, about 58 percent. We have a minority breakdown that is almost similar to that on the national scale, about seven percent Hispanic, a much greater African American community, 22 percent Treasury-wide, and OTS——

Mr. MCCLOSKEY. Do you know how it broke down your members in those areas, proportionately speaking?

Mr. MUÑOZ. In terms of each bureau?

Mr. MCCLOSKEY. Percentage of work force.

Mr. MUÑOZ. I am not sure what pool that would be coming from, if that was your question.

Mr. MCCLOSKEY. Well, you were talking about OTS, correct?

Mr. MUÑOZ. Yes, sir. I do not have a breakdown in terms of how it impacted on minorities and women.

Mr. MCCLOSKEY. That would be interesting to see.

The other issue you talked about was your computer software and how well that has worked as far as simulations of buyouts, which you are willing to make available to other agencies. Have you had any contact with other agencies or any results of examples of cooperation there?

Mr. MUÑOZ. We have, and we were quite happy to see a lot of enthusiasm last fall toward the end of the session when it looked like this legislation was going to pass. This software package was created within Treasury and has since been shared with many other Departments and agencies. The software has also been shared with OMB, the President's Management Council and the President's Council on Management Improvement.

Mr. MCCLOSKEY. Well, thank you very much, gentlemen.

Thank you, Madam Chair.

Ms. NORTON. Thank you very much, Chairman McCloskey, and I thank each of you gentlemen for very helpful testimony, and I want to call then the final panel.

Thank you.

Mr. MUÑOZ. Thank you.

Ms. NORTON. We are pleased to welcome from GAO once again the Director of Federal Human Resource Management Issues, Ms. Nancy Kingsbury, and the Deputy Director of the Congressional Budget Office, Mr. Jim Blum.

You may proceed.

Mr. BLUM. Who is first?

Ms. KINGSBURY. Who is first? We always do this.
Why don't I go first this time?

STATEMENT OF NANCY KINGSBURY, DIRECTOR, FEDERAL HUMAN RESOURCE MANAGEMENT ISSUES, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY JIM BLUM, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Ms. KINGSBURY. It is a pleasure to be here this afternoon, and it has been a long hearing. I think it is a real credit to you that you are still hanging in with us after all this time.

My statement can be submitted for the record. I would like to briefly cover the work that we have done in examining the EEO implications of RIFs and then talk a little bit about some other work and GAO's own experience in the buyout arena.

We did examine this at three installations, and at the time that we did that, there were only 14 installations in DOD that had had RIFs that had affected or separated more than 50 people. So this was a substantial examination of it, and each situation was a little different, but in each of the situations, and we looked at Alameda in California, at Waterveliet in New York, and at Kelly Air Force Base in San Antonio, women and minorities were affected at a rate disproportionate to their population in the work force.

We looked at overall service statistics and calculated that that sort of effect was likely to happen in future RIFs because, if you look at women and minorities generally, they have lower retention standing on the average than white males do.

How a RIF would play out in an individual installation depends a lot on management's specific decisions, and they were different in each of the installations that we looked at.

In some other work that we are doing on downsizing strategies in the private sector, we have seen that, as was testified earlier today, corporations in the private sector try to manage their downsizing through buyout type processes. One of the things that we have learned, and that work is ongoing, is that the worse things get in those companies, the less likely they are to be able to do that, and some of the companies now are still having to have layoffs, but they no longer are able to use buyout strategies. So I think it behooves everybody to recognize that if we do succeed in getting this kind of authority in the federal government, people ought not try to stay around for a better deal in the future. Those kinds of things do not very often come a second time.

Finally, as has been mentioned this morning, GAO has just completed its own downsizing experience using a buyout authority, and I can report to you that we have gone a long way toward achieving our downsizing goals. We are now down to within 100 staff-years of the long-term target that we have of 4,500 staff-years. In that process, because a substantial proportion of the people who left us under voluntary separations were white males, we have improved the diversity of our work force at the senior levels and have avoided making it worse at the lower levels.

We would certainly second Ms. Norton's emphasis on the importance of planning this kind of a process. I think the potential for unintended consequences is quite high, and I can report to you at least in GAO's experience, that we did a great deal of planning

both before, during, and now after the buyouts so that we could continue to provide our work to the Congress without any adverse effect, and I think we have been fairly successful with that.

And with that, I will let Mr. Blum have his say.

[The prepared statement of Ms. Kingsbury follows:]

PREPARED STATEMENT OF NANCY KINGSBURY, DIRECTOR, FEDERAL HUMAN RESOURCE MANAGEMENT ISSUES, GENERAL ACCOUNTING OFFICE

Mr. Chairman, Madam Chair and Members of the Subcommittees: We are pleased to be here this morning to assist the Subcommittees in your consideration of the impact on the federal workforce of eliminating significant numbers of positions during the next few years as proposed by the Vice President's National Performance Review.

As you know, we recently completed a review of the impact of reductions-in-force (RIFs) in selected Department of Defense (DOD) installations on groups covered by equal employment opportunity (EEO) laws. Specifically, we examined (1) whether, in three fiscal year 1991 RIFs, minorities and women were disproportionately affected, and if so why; and (2) whether future RIFs are likely to have a disproportionate impact on EEO groups. I will summarize our preliminary findings from this work this morning.

Our analysis focused on RIFs at installations in the three military services because DOD was the only federal agency to conduct RIFs of significant size in fiscal year 1991, the most recent fiscal year at the time we started our work. RIFs which separated 50 or more employees occurred at six Air Force, one Army, and seven Navy installations. We selected one location from each of the three services; for each of the two services with more than one RIF, we selected the location that had the largest percentage of women and minorities before the RIF to maximize our chances of having sufficient data for statistical analyses.

In addition to our review of specific RIFs, we also analyzed data on Army, Navy, and Air Force civilian employees who would compete during any future RIFs to evaluate the future vulnerability of the EEO groups.

Under OPM regulations, RIFs are accomplished in two phases. First, management determines the numbers and types of positions to be abolished and the "competitive area" affected by that decision. Second, management identifies the employees within the competitive area and their relative status in the competition for retention, as determined by factors such as tenure (type of appointment, e.g., career, career-conditional, or temporary); and, within these tenure or appointment groupings, their veterans' status and seniority adjusted for performance.

When the identified positions are abolished, incumbents of those positions may have assignment rights to other positions, depending on their retention status and qualifications. The complex process of exercising assignment rights creates a cascading effect which may affect numbers of employees much larger than the numbers of positions abolished. Because data on the exercise of assignment rights were not readily available, we were unable to evaluate that aspect of RIFs' effects.

Once the initial decisions are made that define the numbers, types, and locations of positions to be abolished, determination of the retention status of employees and their exercise of assignment rights is a relatively mechanical process with little flexibility.

Employees with the lowest retention status are the ones separated from federal employment in a RIF. We analyzed separation rates and, consistent with guidance and statistical measures used by the Equal Employment Opportunity Commission (EEOC), we considered an EEO group's separation rate to be disproportionate if the rate of separation for the predominant group was less than 80 percent of the separation rate for the EEO group. We also performed tests to determine the statistical significance of our results.[1]

1991 RIFS HAD DISPROPORTIONATE IMPACTS ON MINORITIES AND WOMEN

Fiscal year 1991 RIFs resulted in separations of minorities in numbers disproportionate to their numbers in the workforce at the three locations we reviewed—Alameda, California, Naval Aviation Depot; Kelly Air Force Base, San Antonio, Texas; and Watervliet, New York, Army Arsenal. Women were separated in disproportion-

[1] Using the chi-square statistical significance test, a finding that meets the .05 level of significance is sufficiently strong as to have a probability of no more than 1 in 20 to have occurred by chance.

ate numbers at Watervliet and Alameda. In some case, disproportionate numbers of separations occurred largely because members of these groups did not have the tenure (career appointments), veterans' preference, or seniority [2] of nonminorities or men. In other cases, the disproportionate separations occurred because minorities occupied a large proportion of the positions abolished and the employees had no assignment rights to other positions.

At Alameda and Watervliet, minorities and women were separated in disproportionate numbers largely because they ranked lower than other employees in retention factors—career tenure, veterans' preference, and performance-adjusted seniority. For example, at Alameda, although 73 of 147 (49 percent) of wage grade 10 (WG–10) machinists were minorities, 9 of 13 (69 percent) of those separated were minorities. Similarly, at Watervliet, although only 15 of the 182 (8 percent) WG–8 machine tool operators were women, 13 of 56 (23 percent) of those separated were women.

Overall, minorities at Alameda had slightly lower career tenure status (87 percent compared to 88 percent); 39 percent had veterans' preference status compared to 46 percent of nonminorities; and 42 percent of minorities had above-average adjusted seniority compared to 52 percent of non-minorities. A variation among the groups in even one of the three retention factors could cause a marked influence on the groups' relative separation rates. In the WG–10 machinist example above, tenure was the most significant factor: all 9 minorities released in this case lacked career tenure, whereas more than 100 of the employees retained had career tenure.

Similarly, women at Watervliet Army Arsenal were separated in disproportionate numbers largely because they did not match the retention standing of their counterparts in their competitive levels. In this case, all 13 of the released women lacked veterans' preference.

Management decisions to abolish certain positions were a major factor in the disproportionate separation rates for minorities at Watervliet and at Kelly Air Force Base. At Watervliet, minorities made up only 6.1 percent of the total workforce, but they held 24 of 182 (13.2 percent) of the WG–8 machine tool operators' positions—and that group of positions experienced about 64 percent (56 of 88) of the separations at Watervliet. At Kelly, Air Force Material Command policy required the elimination of all on-call [3] positions before any release of employees with regular work schedules. Minorities made up 69.4 percent of Kelly's workforce, but they occupied 75.7 percent of the on-call positions. Retention factors played no role in these separations because on-call employees had no assignment rights to other positions.

MINORITIES AND WOMEN MAY HAVE DISPROPORTIONATE SEPARATION RATES IN FUTURE RIFS

We also analyzed the retention factors for all civilian workers employed by the military services at the end of fiscal year 1991 who would be likely to compete in future RIFs. Our analysis indicated that minority and women employees may continue to be vulnerable to higher layoff rates than their male and white counterparts. Overall, the services' minorities made up 25.9 percent of employees who would compete in future RIFs, and they ranked lower than whites in all retention factors (see figure 1).

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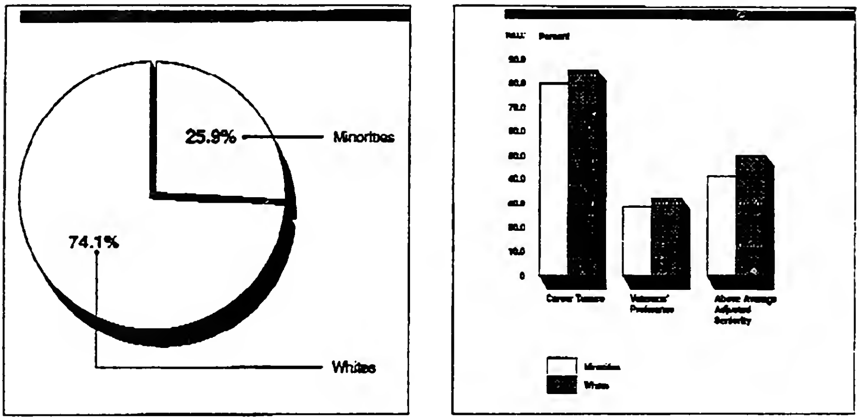
[2] Up to 20 years of service credit is added for fully successful to outstanding performance.

[3] An on-call employee has a permanent appointment (tenure groups I or II) and works on an as needed basis, usually during periods of increased workload.

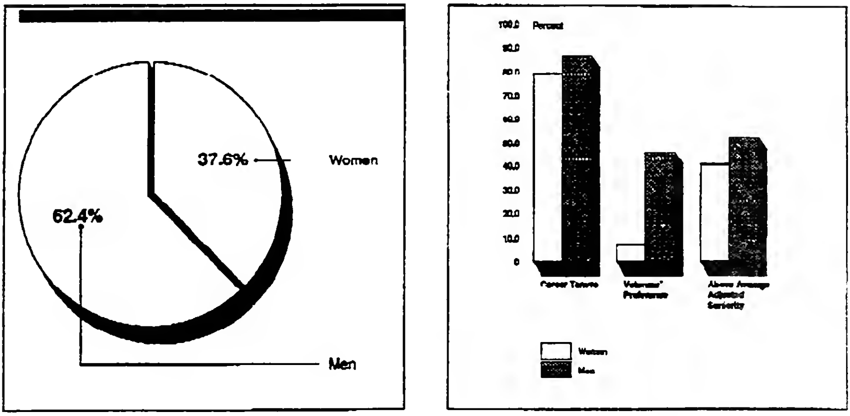
Figure 1: Percentage of Employees and Comparison of Retention Factors for Minorities and Whites



Source: U.S Navy, Air Force and Army servicewide civilian personnel databases.

As shown in figure 2, women represented 37.6 percent of employees who could compete in future RIFs, and likewise, as a group, did not match the retention factors of men. Womens' lack of veterans' preference is a particularly significant disadvantage in the RIF process.

Figure 2: Percentage of Women and Men and Comparison of Retention Factors



Source: U.S. Navy, Air Force, and Army servicewide civilian personnel databases.

We recognize that this is an aggregate analysis and that the effects of any future RIFS on women and minorities may vary greatly among different locations. Depending on the local workforce profile and the positions abolished, women and minorities may or may not be disproportionately affected at any given location.

ALTERNATIVES TO REDUCTIONS-IN-FORCE MAY BETTER PRESERVE RECENT EEO GAINS

We have issued several reports in recent years which document the improvements that have occurred in the federal government in achieving the national policy of employing a workforce from all segments of society. Although more needs to be done to achieve a representative federal workforce, especially at the higher levels, the underlying national policy should apply not only in the exercise of hiring and promotion decisions, but in devising strategies on how to downsize the government.

Achieving workforce reductions through hiring freezes limits agencies' abilities to improve workforce diversity through the hiring of minorities and women, and may also result in a workforce which does not meet agency needs. Conducting workforce reductions by RIFs may, as our work demonstrates, result in a disproportionate number of minorities and women being separated, and it is likely that the process of implementing assignment rights (called "bumping and retreating") could also result in lessening the gains made by minorities and women at the mid and higher grade levels.

On the other hand, downsizing alternatives which emphasize encouraging retirements may have the effect of relatively larger numbers of white males separating voluntarily, and the overall diversity of the smaller workforce may improve. For example, GAO was given authority recently to encourage separations of retirement-eligible and other staff through the use of separation incentives. At the end of calendar year 1993 (the end of our incentive period), 407 staff members had been separated, 232 of whom, or 57 percent, were white males. This separation rate for white males is higher than the proportion of white males in the GAO workforce at the start of our incentive period (45 percent). Overall, these separations permitted us to move rapidly toward our own downsizing goals, without sacrificing recent gains in the representation of women and minorities.

This approach to downsizing has also slightly improved the representation of women and minorities in the upper levels at GAO. For example, eighty five percent of those who separated from our SES corps were white males. This reduction in the numbers of white males at senior positions, coupled with recent additions of women and minorities into the SES, has yielded an improvement in our diversity profile at the most senior level.

Finally, in a separate review of how nonfederal employers carry out downsizing initiatives, we are finding that attention to the morale and fears of the "survivors" is often a major consideration in the strategies these employers use. Workforce reductions involving involuntary separations are certainly traumatic to the employees who lose their jobs, but they can also make those who remain feel very uncertain about their futures as they wonder, "Will I be next?" Thus, although not always successful, many of the employers we visited tried very hard to avoid involuntary separations in developing their downsizing strategies.

Some major employers were able to use retirement and separation incentives. When retirement and separation incentives were not possible, a number of nonfederal employers emphasized clear communications with all employees about where they stood and what was being done to assist those who were being separated as well as those who were being retained. We were told that clear communications to employees about the availability of employer programs such as placement assistance within and without the organization, counselling to help employees cope with change, and job retraining were invaluable in helping the workforce deal with the downsizing. Targeting the downsizings to avoid the loss of needed and skilled staff was also an important part of some employers' downsizing strategies.

Mr. BLUM. Thank you. Thank you, Nancy, Madam Chair, Mr. Chairman.

I appreciate this opportunity to be with you this afternoon to discuss voluntary separation incentives and the restructuring of the federal work force.

Last week the Congressional Budget Office released a study on reducing the size of the federal civilian work force that examined three standard approaches to reducing employment: hiring freezes, layoffs, and early retirement. My prepared statement, which I would ask to be submitted for the record, provides a summary of this study. What I would like to do in my oral remarks is just make a few brief comments about our major findings.

Our study looked at the costs and savings of reducing employment through the three standard approaches, and the use of separation incentives, both in the near term—and by the near term I mean the first five years—and over the longer run.

In preparing our cost and saving estimates, we used a model that was developed originally for the Department of the Army and revised by CBO. The basic assumptions that are contained in the model generally reflect the experience at the Defense Department, where the average civilian worker has a profile similar to that of the average of all government workers.

I should note, however, that the results shown in our study may not be applicable to the individual agencies that have been before you today. The costs of the various strategies may differ, and the effects on the work force could also differ for particular agencies. In such cases, the CBO cost calculations might not show the true relative rankings of alternative ways of cutting staff. Nevertheless, we believe the study provides a good picture of the basic costs of each method of separation, on average, for the federal government.

Each of the major approaches to reducing employment has costs. The magnitude of these costs varies among the different approaches, and the differences can be substantial, particularly when separation incentives are included.

But all of the approaches showed net savings over the near term, assuming that the reductions in staffing are permanent. And over the longer term—going beyond the five years covered by the standard cost estimates—the savings far exceed the costs.

Moreover, the relative cost comparisons of different strategies change. For example, in the near term, the net savings of early retirement with a cash incentive payment are far less than those of a hiring freeze, but over the longer term, the net savings are about the same.

What this suggests to us is that the costs of various approaches to cutting staff may not be a paramount concern—that importance should be given to the non-cost-related consequences of different strategies. Agencies facing reductions in staffing are typically concerned not only with costs but also with minimizing layoffs, ensuring fairness to employees, preserving needed skills and staff morale, and preventing increases in average salary.

If the reductions are large or highly concentrated in time or by occupation or by location, as could be the case under current budgetary constraints in the reductions proposed by the Administration's National Performance Review, agencies could find it harder to reduce employment without laying off more workers. In these cases, separation incentives could easily help to avoid layoffs.

Our study reviewed the effect of employment reductions in the Department of Defense over the past two years, and it also examined the use of separation incentives at the U.S. Postal Service and the Department of Defense. We drew upon that latter experience to make our cost estimate for the Federal Worker Restructuring Act, which embodies the Administration's proposal to allow civilian agencies to use separation incentives to encourage federal employees to resign or retire from service voluntarily.

Last October I testified before you, Madam Chair, on our cost estimate for that proposal. In closing my remarks today, it might be

useful to compare the results of our study on downsizing with the cost estimate that we gave for the Administration's proposal, which by reading the press lately seems to have gained some notoriety in town.

First, the cost estimate of the bill only looked at the near-term costs to the government of providing voluntary separation incentives. It did not include the substantial savings in personnel costs that would result from the ensuing reduction in employment, and as our study shows, these savings over the next five years would more than offset the costs. Over a longer period, if the employment reductions were permanent, the savings would far exceed the near-term costs.

We did not include these savings of personnel costs in our cost estimate for that bill because the proposed legislation contained no provision to ensure that agency appropriations would be reduced as employment fell. In effect, however, most, if not all, of the savings are probably already assumed in the 1994 appropriations and the appropriation limits set for 1995 through 1998 in the Omnibus Budget Reconciliation Act of 1993. So the cost estimate of the bill, by necessity of scorekeeping rules, gave only a partial look at the budgetary impact.

Second, the widely quoted $519 million cost estimate that was attached to that bill showed the effect of the Administration's proposal on the Civil Service Retirement trust fund for only a five-year period. If the cash effect was extended beyond the five-year period, there would quite likely be no long-term cost to the trust fund, largely as a consequence of the 9 percent agency charge against the salaries of early retirees.

So, again, this suggests to us that the near-term costs should not be a paramount concern. A number of federal agencies are quite likely facing a short-term problem with their budgets or the Administration's downsizing targets that could require significant reductions in staffing. In these cases, the experience of the Postal Service and the Department of Defense suggests that separation incentives can be a useful tool to reduce employment.

That concludes my oral remarks, and I would be happy to answer any questions that you or Mr. Chairman would have.

[The prepared statement of Mr. Blum follows:]

Prepared Statement of Jim Blum, Deputy Director, Congressional Budget Office

Madam Chair, Mr. Chair, and Members of the Subcommittees, I appreciate this opportunity to discuss voluntary separation incentives and the restructuring of the federal work force. Last week, the Congressional Budget Office (CBO) released a study, "Reducing the Size of the Federal Civilian Work Force," that examines three standard approaches to reducing employment—hiring freezes, layoffs, and early retirements. My testimony today will review the highlights of this study. Our major findings were:

Permanent cuts in staff will always save money by reducing the continuing costs of government. The relative cost advantages of different approaches to cutting staff, however, depend on the period of time considered. Also, arbitrary or across-the-board cuts may cause backlogs and delays in providing needed services and could leave the government with little in the way of savings.

The costs of various approaches to cutting staff may not be a paramount concern. In addition to costs, agencies engaged in cutting employment must be concerned with ensuring fairness to employees, preserving needed skills, and preventing increases in average salary.

With careful management, agencies can accommodate personnel reductions of several percent a year by relying on a partial hiring freeze with only a modest level of layoffs. If reductions are large or highly concentrated in time or by occupation or region—as could be the case under current budgetary constraints and the reductions proposed by the National Performance Review (NPR)—agencies would probably find it harder to reduce employment without laying off more workers. In these cases, separation incentives could help to avoid layoffs.

COSTS AND SAVINGS FROM CUTTING EMPLOYMENT

Each of the major approaches to cutting staff analyzed in this study has costs—for example, the severance payments to which laid-off workers may be entitled. The magnitude of these costs varies among the approaches and can be substantial. CBO's analysis suggests, however, that savings in pay and benefits over time can far exceed the costs of separating workers regardless of which approach is used. CBO's near-term cash estimates show net savings over five years for each of the major methods of separating workers. The long-term estimates, which consider the effects of separating workers that occur beyond the period covered by standard five-year estimates, show savings far exceeding costs. Federal decisionmakers, therefore, may want to give as much consideration to the impact of each approach on the structure of the work force and other noncost considerations as they do to costs.

ESTIMATING THE COSTS AND SAVINGS OF ABOLISHING JOBS

Both the near- and long-term estimates compare the savings in pay and benefits the government achieves when it abolishes a job with the costs of separating the worker in that job. The estimates rely heavily on data from the Department of Defense (DoD), the agency that has the most extensive experience with cutting employment. The CBO savings estimates assume that the positions abolished have an average salary of $34,500 in 1994, which corresponds to the average at DoD. The CBO analysis assumes that the same position is abolished under each strategy for cutting staff. The implicit assumption made is that agencies reassign the remaining workers so that even though different workers leave under each strategy, ultimately the same job is abolished and the same savings are obtained. Thus, all strategies yield the same gross savings.

The gross savings estimates also incorporate the government's cost for health insurance and retirement. As regards retirement, the near-term cash estimates incorporate amounts saved because of reduced contributions by employers to the Thrift Savings Plan, which is part of the Federal Employees' Retirement System (other retirement contributions to federal retirement systems occur between budget accounts and do not affect near-term cash disbursements). Long-term estimates, however, cover the full, lifetime costs to the government of providing pensions to employees.

In contrast, costs charged against these gross savings vary because each strategy has unique implementation costs and affects different employees. Using data from the Department of Defense, whose average civilian worker has a profile similar to that of the average for all government workers, CBO prepared cost estimates for each strategy. In some cases a particular agency's costs may differ from those estimates. The effects on the work force may also differ among agencies. In such cases, CBO's ranking by cost might not indicate the true merits of alternative strategies. In any given reduction, moreover, agencies may use more than one approach. The estimates simply set out the major costs and basic cost principles that pertain to each method of separation.

CASH COSTS AND SAVINGS IN THE NEAR TERM

The near-term estimates cover changes in the government's cash disbursements over five years. These estimates reflect both the costs associated with separating employees under various methods and the savings in pay and benefits that result. Based on CBO's near-term estimates, the government may save more by separating workers through a hiring freeze or a layoff than through early retirement (see table 1). Over the long term however, early retirement may actually be a bargain for government, as described in the next section. The near-term cash cost of early retirement is high because the option results in recurring costs—the early-retirement pension—rather than the largely one-time costs that occur under a freeze or layoff.

TABLE 1.—CASH COSTS AND SAVINGS OF STRATEGIES FOR CUTTING EMPLOYMENT

[In thousands of dollars per job abolished]

	Layoff		Hiring freeze		Early retirement	
	First year	5-year cumulative	First year	5-year cumulative	First year	5-year cumulative
Total savings in pay and benefits	37.7	202.6	37.7	202.6	37.7	202.6
Costs of separating workers:						
Holding cost	(1)	(1)	18.8	18.8	(1)	(1)
Severance pay	4.5	4.5	(1)	(1)	(1)	(1)
Relocation	3.5	3.5	3.5	3.5	(1)	(1)
Leave refunded	1.4	1.4	(1)	(1)	(1)	(1)
Retraining	1.9	1.9	1.9	1.9	(1)	(1)
Retirement refund	1.7	1.7	(1)	(1)	(1)	(1)
Grade retension	4.8	6.5	(1)	(1)	(1)	(1)
Administration	0.1	0.1	(1)	(1)	(1)	(1)
Change in pension disbursements	(1)	(1)	(1)	(1)	20.8	77.0
Total	18.0	19.6	24.3	24.3	20.8	77.0
Net costs (−) or savings	19.7	183.0	13.4	178.4	16.8	125.6

[1] Not applicable.

Source: Congressional Budget Office.

Costs and Savings of Laying Off Workers.—The most direct method of cutting employment is to lay off people through what the government refers to as a reduction in force, or RIF. The costs for this option—$18,000 per job abolished in the first year and $19,600 over five years—consist largely of benefits available to affected workers. One of the largest costs—$4,500—is for severance payments to workers who have been fired. Net savings total $19,700 per separate worker in the first year and $183,000 over five years.

Costs and Savings of a Hiring Freeze.—In lieu of firing employees, the government can wait for the required number of employees to leave voluntarily for retirement, new jobs, or other reasons and then not replace some or all of them. To reduce the work force by 3 percent to 4 percent a year, an agency would have to limit replacement to two of every three workers who left. According to CBO's estimates, the average cost per job abolished of such a freeze on hiring is $24,300, all of which occurs in the first year. Net savings total $13,400 per job abolished in the first year and $178,400 over five years. Almost the entire cost of this option covers the pay and benefit costs the government incurs as it waits for employees to leave. The estimate also includes $5,400 for retraining and relocation.

Costs and Savings of Early Retirement.—The Office of Personnel Management may grant agencies facing major cutbacks the authority to offer employees the opportunity to retire at a younger age and with fewer years of service than they would have otherwise needed to qualify for retirement. In so doing, an agency frees up positions it can use to help meet employment reduction goals without layoffs. CBO has estimated the cost of this option to be $20,800 per job abolished in the first year and $77,000 over five years. Net savings over five years total $125,600 per job abolished. Almost all of the considerable cash cost of this option reflects the payment of pensions to employees who leave the federal work force earlier than they would have without the early-retirement program.

Costs and Savings of Offering Cash Incentives.—The Defense Authorization Act of 1993 provides the Secretary of Defense with the authority to offer employees who resign or retire during the next five years a lump-sum cash payment of $25,000 or severance pay, whichever is less. The intent is to encourage voluntary separations and avoid layoffs. These incentives greatly increase the cost of separating a worker. (For CBO's estimates of the cash cost of offering employees the opportunity to take early retirement, take regular retirement, or resign with an incentive such as the one in use at DoD, see Table 2). The costs associated with such an effort, primarily because of the cost of the cash incentives, more than offset savings in pay or benefits in the first year. Over five years, however, savings from lower salaries and benefits exceed costs under each alternative. (Official cost estimates of recent legislative proposals concerning cash incentives do not take into account savings in pay and benefits because the proposals only increase retirements or resignations; they do not require reductions in the work force.)

TABLE 2.—COSTS AND SAVINGS OF OFFERING EMPLOYEES CASH INCENTIVES TO SEPARATE

[In thousands of dollars per layoff avoided]

	First year	5-year cumulative
Total savings in pay and benefits	37.7	202.6
Costs of separating workers:		
Early retirement:		
Change in pension disbursements	20.6	80.0
Cost of incentive	40.0	40.0
Total	76.8	91.5
Retirement:		
Change in pension disbursements	20.6	[1] 35.2
Cost of incentive	56.3	56.3
Resignation:		
Refund of unused leave	2.8	2.8
Refund of retirement contributions	15.3	15.3
Cost of incentive	24.9	24.9
Total	43.0	43.0
Net Costs (−) or savings:		
Early retirement	−22.9	82.6
Retirement	−39.2	111.2
Resignation	−5.3	159.6

[1] This cost, as described in the discussion of early retirement, represents the difference between the pension earned and the pension that would have been earned. As these employees would probably have retired eventually anyway in the absence of an incentive, the cost is low compared with that of early retirement.

Source: Congressional Budget Office.

What can make incentives so expensive is that organizations may end up paying many more employees to leave than they have layoffs to avoid. For example, agencies may offer incentives broadly to ensure equity, and payments may also go to employees who would have left anyway but who nonetheless qualify to receive an incentive. CBO's estimates of incentive payments assume that agencies pay bonuses to all employees who would be laid off and to half of all employees who would leave if incentives were not offered.

Of course, policymakers may feel that the added costs of incentives are justified as a means of avoiding the hardships that layoffs cause for both workers and managers. Incentives can be particularly helpful in avoiding layoffs when proposed reductions are concentrated by location, occupation, or agency. Some reductions proposed by the NPR would fall in that category.

Long-Term Costs and Savings.—The effects of abolishing a job and separating a worker extend well beyond the period covered by CBO's standard five-year estimates. The impact of changing a person's retirement plans under an early-retirement program, for example, extends far into the future. Accordingly, CBO also prepared estimates of the long-term costs and savings for different methods of separating workers. These estimates are given in their present value—defined as the total amount of funds needed today to meet all future payments, taking into account the interest that those funds would earn over the period.

Over the long term, early retirement represents a better deal for the government than the short-term estimates indicate. The estimates show that an early-retirement pension stream is lower than the regular-retirement stream it replaces—to the tune of $7,800 per job abolished (see Table 3). The same observation probably explains why few workers accept an offer of early retirement. The highest cost—$81,900 per job abolished—is incurred when a worker eligible for regular retirement leaves with an incentive payment.

TABLE 3.—LONG-TERM COSTS AND SAVINGS OF STRATEGIES FOR CUTTING EMPLOYMENT

[In thousands of 1994 dollars per job abolished]

	Layoff	Hiring freeze	Early retirement	With incentive: Early retirement	With incentive: Retirement	With incentive: Resignation
Total Savings in pay and benefits	979.9	979.9	979.9	979.9	979.9	979.9
Costs of separating workers:						
Holding cost	(1)	22.7	(1)	(1)	(1)	(1)
Severance pay	4.5	(1)	(1)	(1)	(1)	(1)
Administration	0.1	(1)	(1)	(1)	(1)	(1)
Relocation	3.5	3.5	(1)	(1)	(1)	(1)
Retraining	1.9	1.9	(1)	(1)	(1)	(1)
Grade retention	6.4	(1)	(1)	(1)	(1)	(1)
Leave refunded	1.4	(1)	(1)	(1)	(1)	2.8
Annuity cost:						
Annuity	10.8	(1)	309.5	309.5	210.6	15.9
Annuity given up	(1)	(1)	317.3	319.8	184.9	(1)
Subtotal	10.8	(1)	[2] −7.8	210.3	25.7	15.9
Incentive payment	(1)	(1)	(1)	40.0	56.3	24.9
Total	28.7	28.1	[2] −7.8	29.7	81.9	43.6
Net costs (−) or savings	951.2	951.8	987.7	950.2	897.9	936.2

Notes: Costs and savings are given on a present-value basis.

[1] Not applicable.

[2] Savings.

Source: Congressional Budget Office.

These costs, however, seem small in comparison with the savings available when the government abolishes a job for an extended period of time. Over 30 years, savings in pay and benefits for an average position abolished total $980,000—many times the costs. (Consistent with the method adopted in calculating near-term effects, the long-term effects assume that the same job is abolished, and the same gross savings therefore accrue under each method of separating workers. In this analysis, however, savings are appropriately discounted.) The large savings under all alternatives over the long term suggest that cost may not be the most important consideration in determining how to separate workers.

The savings estimates cover the reductions in pay and benefits that the government achieves over 30 years by abolishing a job. The savings also reflect the full cost to government of employee retirement and other benefits. The cost estimates cover the various expenses the government incurs in abolishing jobs. As described in the discussion of the near-term cash effects, these expenses include such things as severance pay and relocation costs.

The major difference between the near-term and long-term estimates is the treatment of retirement costs. The long-term estimates cover the full difference in the government's cost of paying a pension now as opposed to later, rather than only the difference in the next five years.

CBO's analysis suggests that the ranking of various strategies depends heavily on how and over what period one chooses to measure. Near-term costs are very different from those incurred over an employee's full 30-year career. The perspective adopted depends, in part, on whether reductions in employment are likely to be sustained over the long term. Should reductions be made permanent, savings will be many times greater than near-term costs. Given these differences, CBO's analysis suggests that the government should give equal weight to the non-cost-related consequences of the different strategies.

MANAGING EMPLOYMENT REDUCTIONS

Agencies facing reductions in civilian employment are typically concerned not only with cost but also with minimizing layoffs, ensuring fairness to employees, preserving needed skills, and preventing increases in average salary. Many people believe that layoffs must be avoided because of their potential negative effects on morale, that early retirement cannot attract sufficient workers to be a useful alternative, and that hiring freezes increase average salary and eliminate needed skills. Separation incentives are seen as a way to avoid these potential problems.

The Congressional Budget Office's analysis of these issues suggests that with careful management, government agencies can, with only a modest number of layoffs, reduce employment by several percent a year by relying on partial hiring freezes. If drawdowns were large or highly concentrated in time or by occupation or region, agencies would probably find it more difficult to cut employment without laying off more workers. Such drawdowns may well occur given current budgetary constraints and the cuts in employment proposed by the National Performance Review. The use of separation incentives could help to avoid layoffs in such cases. These conclusions stem largely from analysis of DoD's recent experience with both concentrated and more dispersed reductions in civilian employment. They assume that turnover rates are at historical levels.

Layoffs.—CBO found that even with steady decreases in employment of several percent annually, layoffs are likely to be small—less than 1 percent of the work force. Nevertheless, agencies are concerned about using layoffs, primarily because of effects on the morale of the remaining work force. Negative effects on morale can be mitigated, however, by informing workers early and involving employees in reorganizations.

The other chief concern about layoffs is the equity issue—the possibility that female and minority workers are more likely to be laid off and that the work force will become less diverse. Based on DoD's experience, which workers are most likely to be laid off depends more on where reductions in the work load occur rather than on the sex or race of the workers. At DoD, for example, men were more likely to be laid off because most of the jobs abolished were in the predominantly male, blue-collar work force. Even in the case of the white-collar work force, which is made up of equal numbers of men and women, layoffs were proportional.

Hiring Freezes.—If managed effectively, partial hiring freezes—that is, replacing a fraction of the workers who leave—can both reduce employment and minimize layoffs. To ensure that essential work is not affected, agencies seldom use complete hiring freezes. Under a partial hiring freeze, managers can adopt different replacement rates for different occupations to ensure that there are sufficient workers with the appropriate skills to carry out work requirements. Although limiting replacement modestly increases the average salary of workers, such increases may be offset by policy changes such as limiting promotions. Moreover, increases in average salary are small compared with savings in payroll (total salary) resulting from decreases in the size of the work force.

Reductions at DoD reflected both gradual, dispersed decreases and more rapid or concentrated decreases resulting from a sharp drop in work load, management reforms, or base closures. Reductions in other agencies may reflect a different mix of circumstances. The more concentrated the reductions are in time, by occupation, or by location, the more difficult it tends to be for agencies to rely primarily on hiring freezes.

Early Retirement.—Under an early-retirement option, employees can retire at a younger age and with fewer years of service than under regular retirement. Applied broadly, early retirement can create employment opportunities for workers facing layoffs and reduce employment moderately, even if only a small fraction of eligible workers decide to retire early.

SEPARATION INCENTIVES

Incentives are seen as a way for organizations facing employment reductions to avoid a large number of layoffs, provide a "soft landing" for workers who lose their jobs, and reshape the work force. The U.S. Postal Service and the Department of Defense both offered incentives to substantial numbers of employees in 1992 and 1993. To help agencies meet employment reductions proposed in the National Performance Review, the Congress is currently considering extending to all other agencies the authority to offer incentives.

CBO's analysis of recent experience at the Postal Service and DoD suggests that separation incentives have helped these agencies to minimize layoffs, increase voluntary turnover, and eliminate particular positions. Nonetheless, DoD still had to lay off 3,000 workers, and the work forces of both agencies experienced some disruptions caused by extensive transfers of workers who were in abolished jobs. Moreover, turnover appears to have increased above normal rates only enough to offset the lower turnover experienced before the period in which incentives were offered.

Finally, agencies may have considerable difficulty in targeting incentives toward workers who are no longer needed and may therefore incur a relatively high cost for each job abolished. Legislation that would extend the authority to offer separation incentives to other agencies would permit agencies to target payments toward particular organizations, occupations, and locations. If such legislation is enacted,

agency policymakers will need to evaluate their particular circumstances in order to decide which method of reducing the size of their work force is most appropriate.

Ms. NORTON. Thank you, Mr. Blum, and I very much appreciate the clarification in your testimony, but I can tell you that in a real sense, the hold-up in this bill is based on some bogus bookkeeping extrapolations from CBO. It is not that you did it, but the fact is we were almost there when some members of the House and Senate began to quote you in ways that were transparently it seemed, to at least some of us, ridiculous, as if it is possible or let me say this: as if there was any free lunch, as if the government could downsize itself for no cost.

Therefore, the costs that come out, as you have just testified, were not for these members or experts or others measured against the savings. Instead, we were told, well, this costs something so on pay-as-you-go, you cannot do it. This is very, very troubling because it says something both about the way we communicate actual costs within the government and about the automatic reflex reaction that has been bred in members because of a pay-as-you-go methodology.

So I really want to ask you, Mr. Blum, whether you could suggest some way, even if it involves changing law, and I am not sure it does, but whether under either existing scoring rules or in some other way we might avoid the situation whereby the public is treated to weekly notions that if we cut the government, but we cannot cut the government because there is some cost attached to cutting the government, and if there is some cost attached to cutting the government, we must RIF the government, which will cost us even more?

I mean I've heard of a "1984" in the federal government, but I do not think I have seen in a very long time anything more "Kafkaesque" than what those of us who have been trying to get this bill through have had to contend with, and I would like to know from the CBO, since your figures are more often misused in this regard than anybody else's, whether you have any recommendations to us for how to deal with what amounts to enormous savings to the taxpayer that will come if the government spends a little money up front?

Does it take a change in law? Does it take other kinds of changes in order to allow the government to go forward with a cost savings that may require some investment to achieve?

Mr. BLUM. Madam Chair, I think you have put your finger on it. In effect, people may be focusing only on the near-term cost and not looking at what in the long term could be enormous savings to the federal government.

Ms. NORTON. But they are quoting you, Mr. Blum. They are quoting the CBO. They are quoting the Holy Grail here or the Holy Bible, or what is it?

Mr. BLUM. Well, as I tried to explain in my opening statement, Madam Chair, the problem with the cost estimate that we gave for that legislation is that it was essentially only a partial look. We were having to follow, in essence, the budgetary scorekeeping rules that applied to all of the different pieces of legislation, and in effect, those rules made us tell you only what the costs were. It did

not permit us to tell you what the potential savings would be over the longer run.

And I think in that sense, the cost estimate may have done a disservice to you.

Ms. NORTON. What would you suggest we do in the future to avoid that kind of discrepancy in understanding by the public and even by some members of what is necessary in a situation like this? What changes are necessary?

Mr. BLUM. I think the kinds of hearings that you have held today are very important in doing that.

Ms. NORTON. But after this is already done, Mr. Blum, I want to make sure that the next time—and I recognize that the budget agreement of 1999 is absolutely pay-as-you- go—but we may well have to go through this again, and I would like to know if you have any recommendations for how the figures can either be communicated or, for that matter, scored differently.

All I know is this hearing comes much too late. Many agencies will be lucky even if tomorrow we were to do the buyout bill, they would be lucky to meet the Fiscal Year 1994. They already have not met the Fiscal Year 1993 because we could not get it out because of this misunderstanding. So I am looking for a method or a way to avoid what amounts to, frankly, a mechanistic, wholly invalid approach to figuring out whether savings in a situation like this will occur.

I do not know anybody who would do it in his own house. I do not know of anybody who would do it this way in his own business, and yet that way of doing it has absolutely cost the government money, and therefore, I would like to change it or I would like a recommendation of how to change it so we do not have it happen again.

Mr. BLUM. Nothing immediately comes to mind. I will be glad to think about it and get back to you.

Ms. NORTON. I wish you would.

Mr. BLUM. If I can get a bright idea of how to do that.

Ms. NORTON. I wish you would. It is very, very troubling because you are absolutely doing what the law says for you to do. So that is why I say I would like to entertain whatever changes are necessary.

What you said was being soaked up and repeated parrot-like, and what amounted to costs to the government for Fiscal Year 1993, in fact, resulted.

In the same way, I would like to ask Ms. Kingsbury. This is another bit of Alice in Wonderland that has been going on throughout this process, and that is we have been talking as if it is possible to RIF 252,000 people and still leave a government standing, and I just want to ask you if you really think that if we do not do something about this, we could set off the kind of chain reaction, leave aside the national performance review—we understand that that would be set back 100 years, let's say, conservatively—but do you really think that it is practical or realistic in any sense to contemplate the reduction by RIF of over 250,000 federal employees in the time contemplated without creating total, massive confusion and utter chaos in the delivery of federal government services?

Ms. KINGSBURY. I do not think it is possible to do it. I really do not. I think the budget constraints are very real. If you have appropriated only so much money for an agency and that appropriation was based on the assumption that at the end of a certain period of time, you would have X fewer employees, you would have some serious constraints on your hand.

The history of this situation, I think, taken on a local level, taken case by case, is that a great deal of effort would be expended to avoid RIFs of that size, and the RIF process would not permit that 252,000 to come out of the classes of employees that have been discussed here this morning.

RIFs do happen, and when they happen they are arguably quite disruptive before, during and after, frequently long after, as was testified to this morning.

Mechanically it would be very hard to do this late in the fiscal year. It would be very hard to do.

Ms. NORTON. Thank you very much.

Chairman McCloskey.

Mr. MCCLOSKEY. Madam Chair, I do not have questions. I would just like to say thank you to two outstanding witnesses. I think their testimony has been very valuable.

Ms. NORTON. I want to thank you as well, Ms. Kingsbury and Mr. Blum. I am not sure what we would have done throughout these hearings without both of you, and I look forward to working with you on the questions I have just posed to you.

I want to especially thank Chairman McCloskey who worked so closely with my staff. We shared the preparation of this hearing equally over a very short time, and I think it has helped both of us to gain insight into really an unprecedented process for the federal service.

Mr. MCCLOSKEY. Madam Chair, if I might say also, we have a prepared statement from the Department of Justice, and Congressman Burton that we will accept for the record.

[The prepared statements of Hon. Dan Burton and the Department of Justice follow:]

PREPARED STATEMENT OF HON. DAN BURTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

I want to thank my colleagues, Congressman Frank McCloskey and Congresswoman Eleanor Holmes Norton, for holding this joint subcommittee hearing today. It is very important for our two subcommittees to be fully aware of how President Clinton's promise to reduce civilian federal employment by 252,000 positions over five years will affect federal employees and American taxpayers. I support the President's proposal to reduce federal employment because I believe that this sends a signal to the American people that we are serious about deficit reduction. However, there are ways to reduce federal employment other than RIFs, and I believe that RIFs should only be used as a last resort.

I am not claiming to speak for the Republican leadership on this issue, but as the Ranking Republican on the Civil Service Subcommittee, I believe that we could garner additional support for the buyout bill if this legislation were offset with additional budget cuts so that it would not add to the deficit. Furthermore, additional modifications are needed to this bill, and in the full committee last October I offered amendments to do this. Unfortunately, these amendments were rejected. If we could tighten up the buyout bill and find a way to pay for it, then today we might be talking about fewer RIFs or possibly none at all.

In closing, let me say this: All too often federal agencies react to proposed budget cuts by announcing that they will cut programs and services for which there is a high public demand. Instead, they should cut overhead, like a business would, and

not vital services. I would hope that today's hearing will avoid such dramatics, and that we will have an honest and realistic assessment of how federal agencies will reduce their employment in accordance with the Clinton Administration's proposal. I would strongly urge you to do everything within your power to accomplish personnel reduction through attrition and other flexible alternatives, and to avoid RIFs wherever possible. As Ranking Minority Member on the Civil Service Subcommittee, I stand ready to work with you toward this goal.

Prepared Statement of the Department of Justice

The U.S. Department of Justice appreciates the opportunity to convey its strong support for H.R. 3345, which would provide authority for temporary voluntary separation incentive payments (VSIP) for employees of the Department and other Federal agencies.

The National Performance Review provided a foundation for, among other things, a vigorous streamlining of the Federal workforce. Ensuing recommendations and directives have further defined this mandate and have targeted specific goals, including significant reductions in the ratio between managers/supervisors and support staff. At the same time, Congress has reduced the Department's Fiscal Year 1994 funding by approximately $200 million and required the Department to absorb another $170 million in costs on an annual basis.

Recently, the Department offered early retirement to those eligible employees in several components; however, less than 5 percent of these employees took advantage of this opportunity. We are confident that the acceptance rate would increase considerably if the separation incentive were included—a recent survey of Department employees who met the eligibility criteria for early out retirement revealed that 18 percent would consider accepting early out retirement accompanied by a VSIP.

While much of the focus has been on employees eligible for early optional retirement, the Department supports the bill's provision for payment of incentives to employees who voluntarily separate from the service, whether by optional retirement, early optional retirement, or resignation.

Clearly, VSIPs would assist Department components in meeting the NPR delayering targets. Incentives would be used to delayer excessive supervisors and managers and leave in place frontline employees who directly serve the public. The authority would assist many components of the Justice Department in meeting mandated Full Time Equivalent reductions. In addition, several Department components have undertaken initiatives or been affected by conditions which would be assisted by the VSIP program:

On January 27, 1994, the Attorney General and the Director of the Federal Bureau of Investigation announced a plan to reduce by 600 the number of special Agents holding supervisory and managerial jobs and the reassignment of those positions to priority criminal and national security investigations. Half of that effort will be the reassignment of FBI headquarters positions to operational activities. In making the announcement, FBI Director Louis Freeh observed that this major restructuring would be facilitated by the ability to offer VSIPs to special agents in affected positions.

A similar program, the Immigration and Naturalization Service border control policy, calls for transferring positions from certain interior locations to the immediate border area to enhance law enforcement. INS believes VSIPs offer the potential of reducing the costs associated with employee transfers in implementing this policy.

The buyout would alleviate the strain that the Drug Enforcement Administration is currently experiencing in payroll. In Fiscal Year 1995, DEA must absorb an additional $2.7 million in locality pay. This absorption could be funded with the savings obtained through the increased attrition levels due to VSIP-prompted separations.

Thus, the Department of Justice views the VSIP authority as a key element in its ability to meet NPR delayering targets, to achieve mandated FTE reductions, and to achieve important reorganization and realignment goals, and encourages its enactment at the earliest possible time.

Mr. McCloskey. Thank you.

Ms. Norton. Thank you very much. The hearing is adjourned.

[Whereupon, at 3:20 p.m., the subcommittee adjourned subject to the call of the Chair.]

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